AFRINVEST

Nigeria Oil & Gas Sector Update Report

Treading the Thin Line

August 2022

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AFRINVEST RESEARCH

Oil & Gas Sector Update

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Industry Outlook: **Neutral**

Executive Summary

Prior to 2022, the global oil market witnessed volatile conditions due to the outbreak of the Covid-19 pandemic. Most countries introduced movement restrictions, border closure, and temporarily shut down businesses to curb the virus spread. Thus, the demand for crude oil declined by 9.1% to 91.0 million barrels per day (mbpd) in 2020 (2019:100.1mbpd), following the sharp contraction in economic activities. However, in 2021 global oil demand improved by 6.2% y/y to 96.6mbpd, albeit below the pre-pandemic levels, amid a gradual recovery in economic activities and an improvement in transportation fuel consumption.

On the supply side, global oil output increased by 1.4mbpd to average 95.0mbpd in 2021 (2020: 93.7mbpd), leaving a shortfall of 1.6mbpd in contrast to excess supply observed in 2020 (2.7mbpd). We observed that the OPEC+ supply to the market was subdued, partly due to technical and operational challenges encountered by members and allies. Consequently, the build-up in global oil demand following the loosening of pandemic-related restrictions and an up-ward sticky oil supply led to a 64.2% rise in the Brent crude oil price to an average of $70.94/bbl. in 2021, while WTI rose by 73.0% to average $68.07/bbl. This trend sharply contrasted with the oil price crash in early 2020 that prompted the OPEC+ and G20 countries to implement production cuts in three phases.

Our oil supply outlook for 2022 favours higher global output, up 4.0mbpd to 99.0mbpd, on the back of additions from strategic inventory drawdowns and ramp-ups by non-OPEC producers. Similarly, global oil demand is projected to rebound to pre-Covid levels, up by 4.2mbpd to 100.8mbpd based on the OPEC forecast. The positive outlook for oil demand is mainly hinged on further recovery and the normalisation of economic activities in 2022 despite brewing downside risks such as spiralling global inflation and the crises in Eastern Europe.

On the domestic front, the oil & gas sector (upstream segment) has broadly underperformed the general economy over the past decade. Specifically, the oil sector GDP has contracted by a CAGR of 4.3% since 2012 whereas the overall domestic output expanded by 1.9% CAGR in the same period. The oil sector GDP trend is consistent with the collapse in oil production from a daily average of 2.35mbpd in 2012 to 1.60mbpd (including condensates) in 2021, which is 19.1% lower than the 10-year production average of 1.98mbpd. We attribute the negative trend to social unrest around the coastal region, aging oil wells & pipelines, and poor maintenance of oil facilities. More recently, the failure of oil output to return to pre-pandemic levels

Outline

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after the 2020 shutdowns has worsened the prospect for the industry. In addition, the delay in implementing key reforms in the sector has resulted in divestments in the upstream amid a global shift to cleaner energy. Based on data from the Department of Petroleum Resources (DPR), the average crude oil and condensate production as of April 2022 stood at 1.54mbpd, lower than 2.13mbpd and 1.73mbpd in the corresponding period of 2020 and 2021 respectively. For gas, Nigeria's resources remain largely untapped due to low investments in the absence of a strong policy framework, security, and market reflective pricing. As such gas production is estimated to have declined by 3.5% y/y to 2.6 trillion cubic feet (tcf) in 2021, a further decline from 2.7tcf (-4.7% y/y) in 2020.

For 2022, our outlook for gas is gloomy given that technical and operational challenges are still prevalent at production facilities. Also, we project that crude oil production would peg at an average of 1.51mbpd compared to 1.60mbpd in 2021. Based on the Q1:2022 GDP report, the oil sector extended its contraction for the eighth quarter in a row after a 26.0% y/y dip. We expect the oil sector underperformance to linger in the subsequent quarters, albeit mildly. Thus, in a base case, we project an 8.1% y/y contraction of the sector in 2022, barring worsening insecurity and oil theft.

Meanwhile in the downstream segment, the daily petroleum product consumption increased 5.0% y/y to 77.9 million litres in 2020 compared to 74.1 million litres in 2019. Based on the consumption data analysis, Premium Motor Spirit (PMS) accounted for a 77.1% (60.0 million litres) share of the petroleum products, while kerosene and diesel accounted for 22.0% (17.1 million litres) and 1.0% (0.7 million litres) respectively. We estimate daily petroleum products consumption to have increased by 5.1% in 2021 (to 81.1m litres) due to the complete lifting of pandemic restrictions and sustained epileptic power supply to businesses and households.

Also, the ongoing rehabilitation of the refineries is expected to enhance capacity utilization. Based on the latest data, the refineries were redundant in 2020 and 2021 with zero output of LPG, PMS, HHK, and AGO. As a result, 100.0% of total petroleum products were met through importation in 2021. Given the near completion of rehabilitation work on state-owned refineries and the expected coming on stream of the 650,000 bpd Dangote refinery in Q4:2022, we anticipate resumption of local supplies of refined product by year-end.

Beyond these, a tight regulatory environment due to lack of clarity on policy direction (for instance, the postponement of the implementation of PIA), price controls, and vandalism further weighs on outlook. These constraints have informed investors' poor pricing of the Nigerian downstream oil companies (c.3.1% of total NGX equities capitalisation as of 30/06/2022) given a P/E of 3.5x compared to an average

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of 14.1x for selected market peers (downstream).

In the upstream sector, SEPLAT is the only publicly listed company. Over the years, Seplat has recorded impressive revenue growth with a 5-year CAGR of 20.2% which reflects its strong presence in the exploration and production segment. We forecast a 22.6% rise in revenue to $898.6m for 2022, and a CAGR of 7.5% over the next 5 years on the back of accretion from onboarding MPNU (Mobil Petroleum Nigeria Unlimited) assets, which is expected to improve production volume and sales. Also, the completion of strategic projects like the Sibiri exploration well at OML 40 slated for 2022 and Amukpe-Escravos pipeline commissioning would contribute to an uptick in revenue numbers. While these factors are positive for the company, we think there are some headwinds in the form of production stoppages at Oben, outages on the Trans Forcados Pipeline, and operational costs. As such, we arrived at a one-year target price of ₦1,564.10 representing a 9.3% upside potential from its closing price of ₦1,430.50 on 26-07-2022. Consequently, we issued a "HOLD" rating.

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For the downstream sector, we project a 13.1% y/y rise in industry revenue to ₦756.1bn in 2022. Our outlook is premised on the fact that the demand for white products (AGO, ATK, PMS, DPK) and lubricants & greases remain unabated despite the increase in prices as substitutes are scarce. We issued a "BUY" rating on TOTAL and CONOIL, while ARDOVA's valuation informed a "HOLD" recommendation given their closing prices as of 26-07-2022. For TOTAL, we expect its strong presence in the Aviation Turbine & Kerosene (ATK) and Lubricant markets alongside a solid cost structure to deliver quality earnings growth. Also, we expect CONOIL's effective implementation of cost control to buoy impressive top and bottom-line. For ARDOVA, its strong focus on product distribution capacity expansion and cost-optimization is expected to solidify its position within the industry which is positive for both short- and long-term outlooks.

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Oil & Gas Sector Update

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Global Upstream Oil & Gas Industry

Global Dynamics: Rebound in Oil Demand Amid Economic Recovery

Prior to 2022, the global oil market witnessed volatile conditions in 2020 due to the outbreak of the Covid-19 pandemic. Most countries introduced movement restrictions, border closure and temporarily shut down businesses to curb the virus spread. Thus, the demand for crude oil declined by 9.1% to 91.0mbpd in 2020 (2019:100.1mbpd), following the sharp contraction in economic activities.

In 2021, global oil demand grew by 6.2% to 96.6mbpd but stayed below the pre-pandemic levels amid a gradual recovery in economic activities and an improvement in transportation fuel consumption despite a resurgence in Covid-19 cases. In OECD, oil demand rose by 2.6mbpd y/y driven by higher consumption from Europe, America, and Asia. Likewise, the non-OECD oil demand averaged 52.1mbpd, a rise of 3.1mbpd in 2021 buoyed by Russia (+0.2mbpd), China (+1.0mbpd), Other Asia (+0.5mbpd), and Africa (+0.2mbpd).

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On the supply side, oil output increased by 1.4mbpd to an average of 95.0mbpd in 2021 from 93.7mbpd in 2020, leaving a shortfall of 1.6mbpd in contrast to excess supply observed in 2020 (2.7mbpd). While non-OPEC liquid supply inched higher by 0.6mbpd to average 63.6mbpd (2020: 62.9mbpd), we note the constraint of the OPEC+ cartel to ramp up production due to technical and operational challenges encountered by members and allies. Notwithstanding, the supply outlook for 2022 favours higher global output, up 4.0mbpd to 99.0mbpd, on the back of additions from strategic inventory drawdowns and ramp-ups by non-OPEC producers. Similarly, global oil demand is projected to rebound to pre-Covid levels, up by 4.2mbpd to 100.8mbpd based on OPEC forecast.

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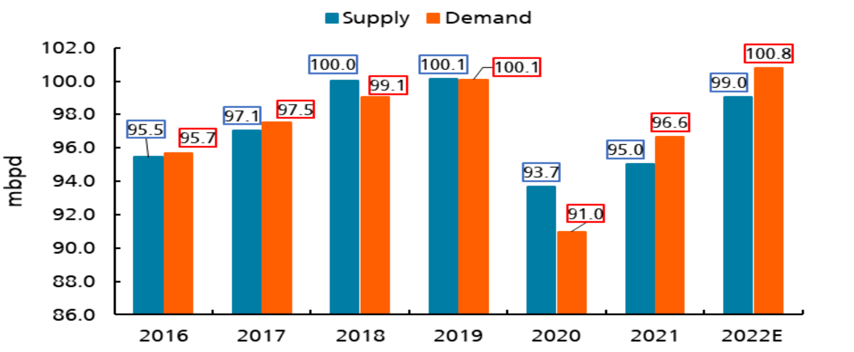
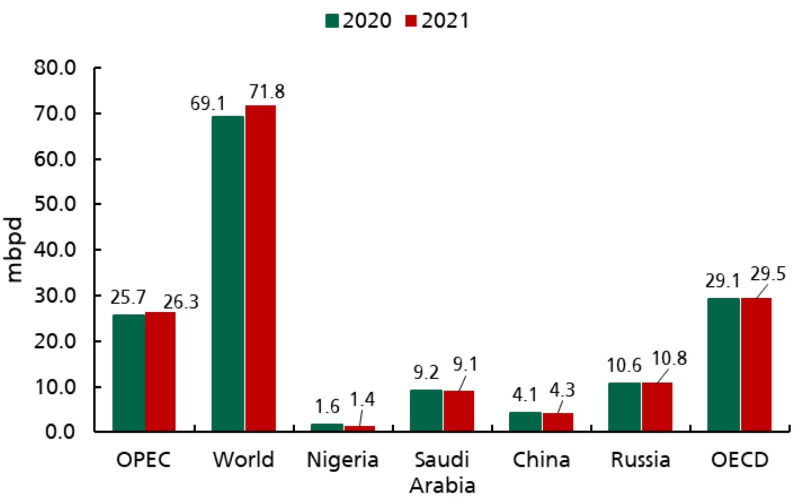
Global oil demand is projected to rebound to pre-Covid levels, up by 4.2mbpd to 100.8mbpd based on OPEC forecast.

Chart 1: Oil Demand vs Supply Trend (2016-2022)



Source: OPEC, Afrinvest Research

Chart 2: Global Oil Production Trend (2020-2021)



Source: BP Statistics, OPEC, Afrinvest Research

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Global Oil Price trend: Sticky Supply Props Up Oil Prices

Since the global financial crisis of 2008/9, OPEC has supported oil price recovery through production cuts. In the wake of the pandemic, Brent's crude oil price crashed to multi-year lows of $22.74/bbl. by the end of March 2020, after averaging $64.16/bbl. and $71.69/bbl. in 2019 and 2018 respectively. The sharp decline in oil prices prompted the OPEC+ and G20 countries to convene an emergency meeting in April 2020, during which an agreement was reached to balance the market by implementing production cuts in three phases. In the first phase spanning May to July 2020, a production cut of 9.7mbpd was implemented while the second phase entailed a 7.7mbpd cut from August to December 2020, and 5.8mbpd in the third phase (January to April 2021).

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Due to the swift response of oil producers, the global oil market witnessed a gradual recovery which started in May 2020, and by the end of 2020, Brent futures had risen to $51.80/bbl. In 2021, the Covid-19 vaccines rollout and loosening of pandemic-related restrictions resulted in a faster increase in global oil demand compared to the upward sticky supply. The change in dynamics led to a 64.2% rise in Brent crude oil price to an average of $70.94/bbl. while WTI rose by 73.0% to average $68.07/bbl. Global supply concerns emerging from the Ukraine-Russia tension and threats to oil infrastructure in the United Arab Emirates pushed Brent crude oil price to a seven-year high of $100.99/bbl. in February 2022. Due to the continued expansion of economic activities, the EIA forecast Brent crude oil price to average $108.00/bbl. in 2022. That said, we note that the elevated oil prices have stoked an upward pressure in consumer prices globally with potentially negative consequences for economic growth. The move to assuage rising prices has prompted the US and members of the International Energy Agency (IEA) to plan crude oil inventory drawdowns. In our assessment of the price trend, we note that a critical risk to forecast could materialize from the resurgence of Covid-19 cases in China, the biggest importer of crude oil globally, and the possible contagion effect.

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Global Decarbonisation: Will Europe's War Delay Hydrocarbons Phase-out?

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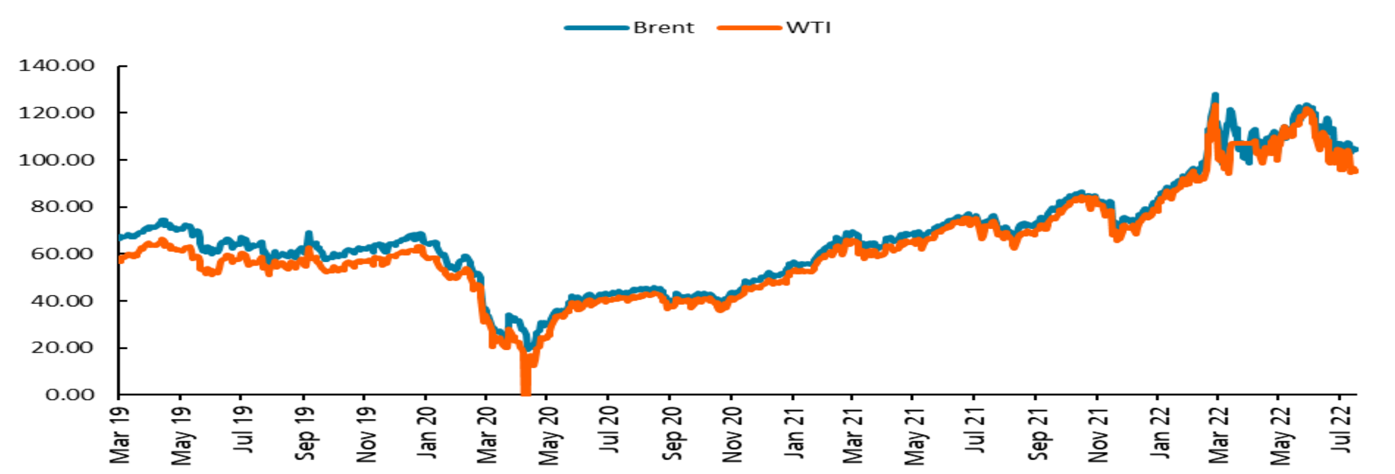
While fossil fuels remain the dominant source of energy consumption globally (c.80.0%), the increasing production and adoption of clean and renewable energy is expected to drive major changes in the energy industry over the coming decades. This transition from fossil fuel to renewable energy is anticipated to be backed by a supportive policy environment and the increasing participation of the private sector in addressing climate risks. The conclusion of the 2021 United Nations Climate Change Conference (COP26) came with the announcement of several ambitious climate targets set by countries to push the decarbonisation process and consolidate the progress made so far. For instance, China, a dominant force in the renewable energy sector, plans to achieve peak emissions before 2030 and net zero emissions by 2060 while the US is aiming for net zero by 2050. Also, the EIA estimates that by 2050, renewables would account for the largest share of US energy con-

Chart 3: Historical Oil Price Trend (2019-2022)



Source: Bloomberg, Afrinvest Research

sumption, surpassing oil which currently accounts for 32.0% of total energy consumption.

We opine that while the overall demand forecast for renewable energy is optimistic, fossil fuel would remain dominant globally, as cost and technological barriers still exist. Importantly, the Ukraine-Russian war which exposed Europe's over-reliance on Moscow's energy (for over 25.0% and 40.0% of crude oil and gas needs, respectively) and worsened the global energy crisis should be a bump in the road to decarbonization in the near term. In our view, the impact of the crisis would lead to a diversification of energy imports from Russia to other regions over the coming years. Albeit, given that supply from other markets might not be sufficient to plug the gap in Europe by reducing Russian energy imports, it is not unlikely that alternative fuels like coal and "dirty" hydrocarbons would see an uptick in demand in the short term. In the US, attention would likely be turned to reviving the shale industry, an unusual – but possible turn in the country's decarbonisation quest under President Biden. That said, it is our view that while the divestment from Russian oil would delay the timeline for transitioning to non-hydrocarbon fuels, there would still be unhindered investments in alternative and green energy to aid the realisation of energy independence and attainment of sustainability goals. In sum, the crisis in Ukraine would be a springboard for green energy in the long run.

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Nigerian Oil & Gas Industry

Overview of Domestic Oil & Gas Industry

Since the discovery of crude oil in 1956, the oil sector has played a critical role in shaping the Nigerian economy. In terms of trade, crude oil accounts for c.76.0% of exports and doubles as the largest source of foreign exchange earnings from merchandise trade. Also, the FG relies on oil earnings for c.45.0% of its revenue (even as of FY-2021). By implication, fiscal policy is affected by the oil & gas sector's performance. In terms of administration, the oil & gas sector is divided into 3 streams namely upstream, downstream, and midstream. The upstream segment, also known as exploration & production, is concerned with locating reservoirs and drilling oil & gas wells. On the other hand, the midstream is saddled with the responsibility of transporting extracted products from the wells to refineries, while the downstream is responsible for the refining and the sale of finished products (APK, AGO, HHK, Jet fuel, etc). The principal laws governing activities in the oil & gas sector include the Petroleum Act, Petroleum Profit Tax Act, the Deep Offshore and Inland Basin Production Sharing Contracts, the Environmental Impact Assessment (EIA) Act, Nigerian Extractive Industries Transparency Initiatives Act, Oil Pipelines Act, Niger Delta Development Commission Act, Federal Inland Revenue Service, and National Oil Spill Detection and Response Agency Act.

Since the discovery of crude oil in 1956, the oil sector has played a critical role in shaping the Nigerian economy.

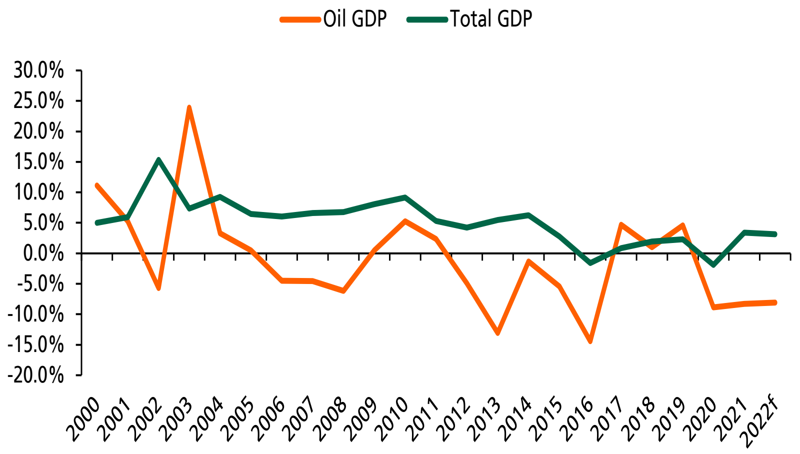
Despite its cornerstone role, the oil & gas sector has broadly underperformed the domestic economy over the past decade. Specifically, the oil sector GDP contracted by a CAGR of 4.3% since 2012 whereas, the broader economy expanded by a CAGR of 1.9% over the same period. This trend is consistent with the collapse in the daily average crude oil production to 1.60mbpd (including condensates) in 2021 (from 2.35mbpd in 2012), which translates to a 19.1% shortfall when compared to the 10-year production average of 1.98mbpd. We attribute the negative trend to social unrest around the coastal region and reduced investment in oil facilities which was partly impacted by outdated industry regulations. In 2016, a resurgence in oil bunkering, vandalism, and kidnappings around the Niger-Delta region dragged oil output to 1.4mbpd, exacerbating the recession that started in Q2:2016 following the crash in global oil prices to below $40.00/bbl.

Despite its cornerstone role, the oil & gas sector has broadly underperformed the domestic economy over the past decade.

We attribute the negative trend to social unrest around the coastal region and reduced investment in oil facilities which was partly impacted by outdated industry regulations.

More recently, the failure of oil output to return to pre-pandemic levels after the 2020 shutdowns has worsened the prospect for the industry. Furthermore, the delay in implementing key reforms in the sector has resulted in divestments in the upstream amid a global shift to cleaner energy sources. Based on data from the Department of Petroleum Resources (DPR), the average crude oil and condensate production as of April 2022 stood at 1.54mbpd, lower than 2.13mbpd and 1.73mbpd in the corresponding period of 2020 and 2021 respectively. The down-

Chart 4: Oil GDP vs TOTAL GDP Trend (2000-2022F)



Source: CBN, Afrinvest Research

turn is due to production challenges at terminals and streams such as Bonny (-52.4% y/y), Brass (-24.0% y/y), Escravos (-18.3% y/y), Aje (zero production), Bonga (-5.9% y/y), Egina (-5.5% y/y), Agbami (-13.3% y/y) and Akpo (-16.2% y/y) which account for 45.4% of total crude oil and condensates. For gas, Nigeria's resources remain largely untapped. Low investments due to the absence of a strong policy framework, security, and market reflective pricing tops the limiting factors hindering the optimisation of the gas resources in Nigeria. As such, gas production dipped by 4.7% to 2.7tcf in 2020. Compounding woes, the disruption across major Nigeria oil terminals weighed on production which is estimated to have declined by 3.5% to 2.6tcf in 2021.

Low investments due to the absence of a strong policy framework, security, and market reflective pricing tops the limiting factors hindering the optimisation of the gas resources in Nigeria.

In 2022, our outlook for the oil sector is gloomy given that technical and operational challenges are still prevalent at production facilities. We expect crude oil production to peg at an average of 1.51mbpd compared to 1.60mbpd in 2021. Based on the Q1:2022 GDP report, the oil sector extended its contraction for the eighth quarter in a row after a 26.0% y/y dip. We expect subsequent quarters' production to improve albeit, growth would remain in the negative territory. Thus, our base case projection is an 8.1% y/y contraction, barring worsening insecurity and oil theft.

Regulatory framework

Nigeria Finance Act 2021: Oil & Gas Players in a New Tax Regime

On 31st December 2021, President Buhari signed the finance bill into law, and it took effect on 1st January 2022. The Act aims to improve domestic revenue mobilization, enhance tax administration & legislative drafting, drive fiscal sector reforms

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& tax equity and harness international tax opportunities. Based on the new finance act, companies in the upstream sector are mandated to comply with VAT regardless of turnover amount, as the exemption provided in Section 15(2) of the VAT Act is no longer applicable. Also, oil & gas companies with a turnover of ₦100 million and above are required to pay 0.25% of their profit before tax as NASENI (National Agency for Science and Engineering Infrastructure) levy.

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In the previous Act, oil & gas companies were eligible for exemption from income tax, where the proceeds from such export were repatriated to Nigeria and used exclusively for the purchase of raw materials, plants, equipment, and spare parts. The new finance act modified the provision. As such, profits of oil & gas companies from the exportation of goods are now taxable. Furthermore, the incentive for gas utilization can now be claimed once by an entity. As a result, companies formed due to restructuring, buy-back, or other similar operations that have already benefited from this incentive are no longer eligible to enjoy the waiver. We opine that while this move by the FG is to generate more revenue for the country, it contradicts the goal of reducing gas flaring. Also, the removal of tax exemption comes at a time when investment in the upstream oil and gas industry is decreasing (divestment e.g. Shell, Exxon Mobil, and Total). Therefore, this policy could prevent or slow future investment in the industry.

Petroleum Industry Act 2021... Better Late than Never?

After more than two decades of legislative encumbrances, the much-anticipated Petroleum Industry Act (PIA) was signed into law by President Muhammadu Buhari on August 16, 2021. The PIA is aimed at repositioning the Nigerian Oil & Gas industry through reforms in four (4) key areas of Governance, Administration, Host Communities Welfare, and Fiscal Provision.

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Due to the outdated provisions of the Petroleum Profit Tax (PPT) Act of 1959 and the Petroleum Act of 1969, several global oil & gas players have for many years shunned Nigeria for investment, despite its ranking among the global top-10 in terms of oil (37bn bbl.) and gas (206tcf) reserves. Industry data obtained from Statista revealed that only about 4.0% of the US$70.0bn in investments made in Africa's oil & gas industry between 2015 and 2019 were in Nigeria. In corroboration of this, FDI flows data from the NBS also revealed that only 1.7% (US$1.8bn) of total FDI flows worth US$104.9bn between 2014 and 2021 went to the oil & gas sector. The economic loss from the lack of a reformed oil & gas industry policy also manifested in widespread environmental pollution, dwindling FG's oil revenue, rigid bureaucratic process, illegal exploration, multiple taxations, and corruption.

To improve governance, the PIA was designed to segment the oil & gas industry into two streams, with new management structures - the Nigerian Upstream Regulatory Commission (NURC or The Commission) for upstream activities and the Nigerian Midstream & Downstream Petroleum Regulatory Authority (NMDPRA or The Authority) for the mid-and downstream. The objective of this revamp is to eliminate conflict of roles by clearly segmenting the industry, thus improving overall efficiency and regulations. Along with the governance reform, the PIA targets the commercialization of the NNPC within 6 months of the commencement of the PIA to birth NNPC Ltd. As at the time of compiling this analysis, the goal of transforming the NNPC to a limited company has been achieved despite initial setback caused by the postponement of the PIA implementation timeline.

As part of administrative reforms to promote the public good in the exploration and exploitation of petroleum products, the PIA removes the exclusive power of the petroleum minister to make all the decisions affecting the industry. Therefore, the Act empowers both the Commission and the Authority to enforce industry regulations and make recommendations to the petroleum minister concerning the approval or withdrawal of licenses.

The Act also seeks to establish a Host Community Development Trust (HCDT) Fund that would require upstream, and midstream & downstream operators to contribute 3.0% and 2.0% respectively of their actual OPEX in the preceding year to the fund, in addition to existing provisions for the host communities. We opine that this fund would be beneficial in addressing the agitations of host communities for the social and economic development of their region. To our mind, the PIA could aid host communities in developing an ownership mindset of oil & gas assets and reduce vandalism which has remained a major concern to foreign investors. According to the Act, a host community could forfeit its share from the fund subject to the extent of the cost of repairs on petroleum assets or disruption of production activities within their community.

On the fiscal provision, the Act seeks to establish a progressive framework that would encourage investments in the oil & gas industry and expand the revenue base of the government while ensuring a fair return to investors. To drive this, the PIA replaced the Petroleum Profit Tax (PPT) regime with Hydrocarbon Tax (HT) and Company Income Tax (CIT). Players in the upstream segment would be subjected to both HT (range: 10.0% to 22.5%) and CIT (30.0%), both of which will be lower than the current rates of 50.0% for Petroleum Sharing Contracts (PSCs) and 85.0% for non-PSCs under the PPT regime. On the other hand, players in the mid-and-downstream would only be subjected to CIT. We believe the new tax regime

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would be more attractive to investors, especially the upstream players, whose investment risk is much higher in the value chain.

...we believe the focus of the Act should be to attract private investors to the frontier basins, given the government's thin resources.

Ahead of the full implementation of the PIA by August 2023 (the full implementation PIA has been extended by 18 months from its previous commencement date of February 2022), we picked two major flaws in the PIA which should have far-reaching consequences on the economy. First, the PIA provided that 30.0% of NNPC's profit, in addition to 10.0% from rents on petroleum prospecting licenses and mining leases, be committed to exploration in frontier basins. While we are not opposed to capacity expansion, we believe the focus of the Act should be to attract private investors to the frontier basins, given the government's thin resources. Besides, we believe the share of profit committed to this venture is material and would result in a significant reduction in the flows to the federation account in the immediate term. Secondly, the PIA did not articulate clear directions for diversifying into cleaner energy in line with global trends. This vacuum might become apparent over the next decade and threatens Nigeria's cash flow as major economies dump fossil fuels for renewable energy.

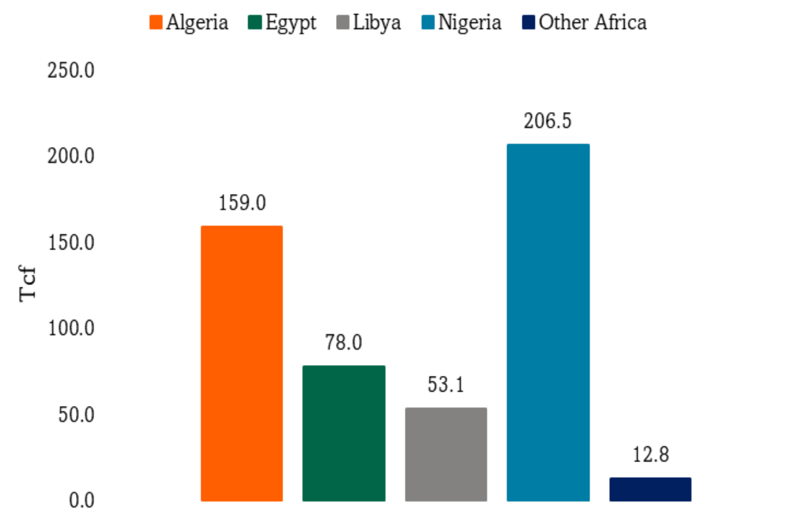
Domestic Upstream Oil & gas Industry

Nigeria's Gas Reserve Sturdy, With Headroom for Higher Production

According to NNPC, Nigeria's gas reserves stood at 206.5tcf in 2021 - the largest in Africa, compared to Algeria (159.0tcf), Egypt (78.0tcf), and Libya (53.1tcf).

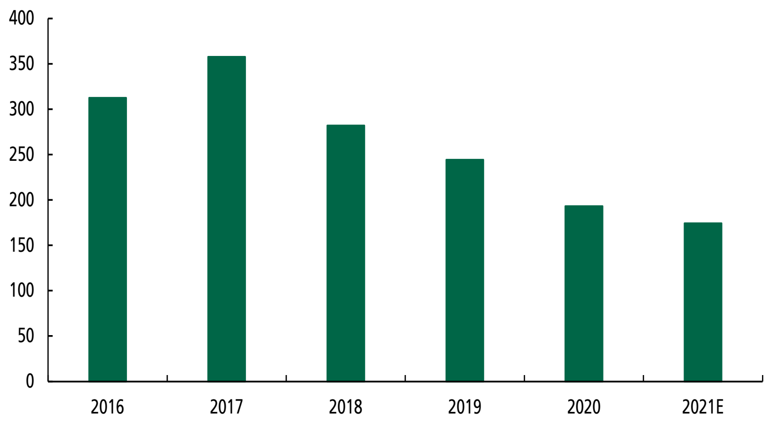
According to NNPC, Nigeria's gas reserves stood at 206.5tcf in 2021 - the largest in Africa, compared to Algeria (159.0tcf), Egypt (78.0tcf), and Libya (53.1tcf). Despite the large gas reserves in Nigeria, the sector is still faced with infrastructure challenges (inadequate gas pipelines and processing facilities) which have kept average annual gas production growth stunted at -1.8% between 2016 (2.8 tcf) and 2020 (2.7 tcf). Also, gas flaring is a major constraint in the production and processing of gas although there has been a significant reduction in flaring activities since 2018 due to the projects that have helped in converting waste gas into liquid fuels for exports and the decline in oil production. Between 2018 -2020, gas flaring declined by 18.5% to 193.1bscf. Ordinarily, the improvement in gas flaring should support higher gas output but this has not been the case. As of 2020 gas production declined 4.7% y/y to 2.8tcf (2019: 2.9tcf) due to technical and operational challenges. Given the continued disruption across major oil terminals, we estimate gas production in 2021 at 2.6tcf.

Chart 5: Gas Reserves (2021)



Source: BP Statistics, NNPC, Afrinvest Re-

Chart 6: Nigeria Gas Flared (2016-2021)



Source: NNPC, Afrinvest Research

Since the introduction of PIB in 2008, Nigeria has lost at least $235.0bn worth of investments in the oil & gas space due to delay in passing the bill.

Postponement in PIA Implementation… Major Set Back to Exploration and Production Investment

Since the introduction of PIB in 2008, Nigeria has lost at least $235.0bn worth of investments in the oil & gas space due to delay in passing the bill. The prevalence of over-regulation, multiple taxation and lack of transparency, which the bill sought to address, dampened confidence of investors and worsened operating environment for industry players. As a result, vandalism and oil theft in host communities (costing over $2.2bn between 2015 and 2021), divestment of IOCs and other headwinds weighed on the sectors growth.

With the postponement of the PIA full implementation, following the bill's historic passage in August 2021, we are less likely to see any improvement in the near term. As such, the issues around governance, lack of transparency & accountability, unattractive regulatory & fiscal frameworks, and the strained relationship between the oil companies and host communities would persist. Thus, this would continue to raise uncertainty for potential investors and affect investment in the exploration and production of oil & gas.

with the postponement of the PIA, we are less likely to see any improvement in the near term.

NLNG Train 7 Project: Community Disputes to Drag Progress

The Nigeria LNG Limited (NLNG) was incorporated as a Limited Liability Company on May 17, 1989, nearly three decades after the federal government set up a panel to assess the feasibility of monetizing gas flaring and LNG projects in Nigeria. The successful take-off of the project paved the way for the export of the first LNG cargo in October 1999 (Train 2), and Train 1 came online in February 2000. So far, there are a total of six operational LNG processing units, four 84,200m³ LNG storage tanks, four 65,000m³ refrigerated storage tanks, and three 36,000m³ condensate storage tanks. In 2021, the FG commenced the construction of a new liquefaction unit as an ongoing expansion of the Nigeria LNG Terminal at Bonny Island. The new project, NLNG Train 7, is expected to increase the NLNG facility's total production capacity from 22.0mtpa to 30.0mtpa upon completion in 2024.

The Nigeria LNG Limited (NLNG) was incorporated as a Limited Liability Company on May 17, 1989

We note that the expansion of NLNG Trains would increase the supply capacity and boost exports. Albeit a key risk to the timely completion of the Train 7 project could emanate from disputes with host communities. For instance, in February 2022, the Orashi communities in Rivers state threatened to shut down the NLNG Train 7 project over certain grievances.

Albeit a key risk to the timely completion of the Train 7 project could emanate from disputes with host communities.

Upstream Company Analysis

Seplat Energy Plc

Company Overview

Seplat Energy Plc (“Seplat” or “the Company”) is Nigeria’s leading indigenous energy company engaged in oil and gas exploration and production. Seplat is listed on the London and Nigeria Stock Exchanges. The Company carries out its operations in the prolific Niger Delta where most of its oil assets are based. Over the years, the company has continued to expand its asset base and recently increased investment in cleaner energy. To align with its new vision of broader diversification across the energy sector, the Company changed its name from Seplat Petroleum Development Company Plc to Seplat Energy Plc.

Analysis of Strategy and Operations

Seplat has launched new strategies targeted at building a sustainable business and energy transition. The energy transition is focused on moving from fossil fuel to renewable energy and ending gas flaring by 2024. This has received endorsement from the FG, and we believe this would significantly deliver sustainable growth for Seplat. In line with its expansion strategy through the acquisition of divested assets, Seplat is set to acquire the offshore shallow water business of ExxonMobil. Upon, confirmation by statutory authorities, the acquisition will add W.I. 95 kilo barrel of oil equivalent per day (kboepd) to production capacity, total W.I gas resources of 2.9 Tscf and 445 MMboe 2P reserves to existing assets as well as the Qua Iboe terminal, Bonny River terminal, and Yoho Floating storage & offloading which would help in improving export capabilities. Overall, this would increase low-cost production and reserves.

In 2021, constrained production levels in Nigeria following cuts in OPEC+ production quotas, force majeures, and tank-top issues experienced at the terminal lowered SEPLAT’s output by 6.8% to 47,693boepd from 51,183boepd. This production level consists of liquids and gas output of 29,091boepd and 18,603mmscfd respectively. The liquids production declined 13.7% y/y which reflects lower production across all assets save OML 53 and OPL 283. We note that the concentration of production at OML 4,38, &41 fields weakened with a share of 62.7% from 63.0% of total production. Meanwhile, gas production rose 6.5% y/y as gas well development contributed to the production. To reduce losses and deferments, the Company is set to launch Amukpe-Escravos Pipeline (AEP), a secured and reliable route to market from major assets. The AEP would also lower tariffs due to non-export through Chevron. We believe that Seplat’s strategies are set to promote sustainable growth.

Financial Performance: Oil Price Recovery Supports Revenue

Over the years, Seplat has recorded impressive revenue growth with a 5-year CAGR of 20.2% which reflects its strong presence in the explo-

Trading Data - Seplat Energy Plc			
Rating			HOLD
Share Price (₦) as of 26/7/2022			1,430.50
12-month TP (₦)			1,564.10
Upside Potential			9.3%
52-Weeks High (₦)			1,430.50
52-Weeks Low (₦)			615.00
Outstanding Shares (bn)			0.6
Free Float (%)			30.0%
Market Cap ₦'bn			841.8
Market Cap US$'m			1,989.2
Profitability			
	2021	2022F	2023F
Revenue ($'m)	733.2	898.6	966.6
EBITDA ($'m)	214.8	376.6	392.6
PAT ($'m)	117.2	170.0	176.9
EPS ($)	0.20	0.29	0.30
P/E Ratio	17.0x	11.7x	11.2x
EV/EBITDA	10.5x	6.0x	5.8x
Dividend Yield	3.7%	3.1%	3.2%

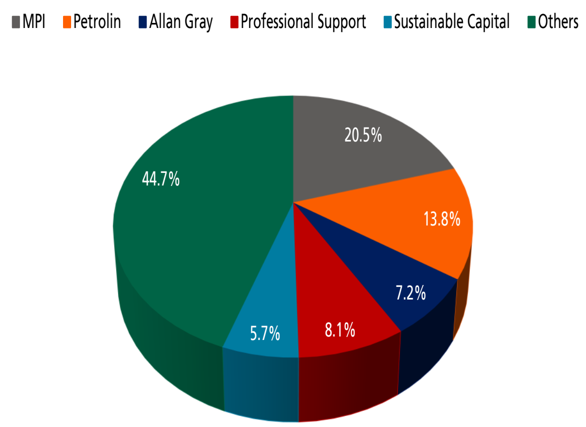
Source: Company Filing, Afrinvest

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost Of Equity				
	13.6%	15.1%	16.6%	18.1%	19.6%
1.5%	1,578.99	1,556.45	1,540.90	1,530.61	1,524.40
2.0%	1,596.39	1,570.19	1,551.98	1,539.70	1,531.96
2.5%	1,615.82	1,585.36	1,564.10	1,549.57	1,540.11
3.0%	1,637.63	1,602.19	1,577.41	1,560.31	1,548.93
3.5%	1,662.32	1,620.96	1,592.09	1,572.05	1,558.49

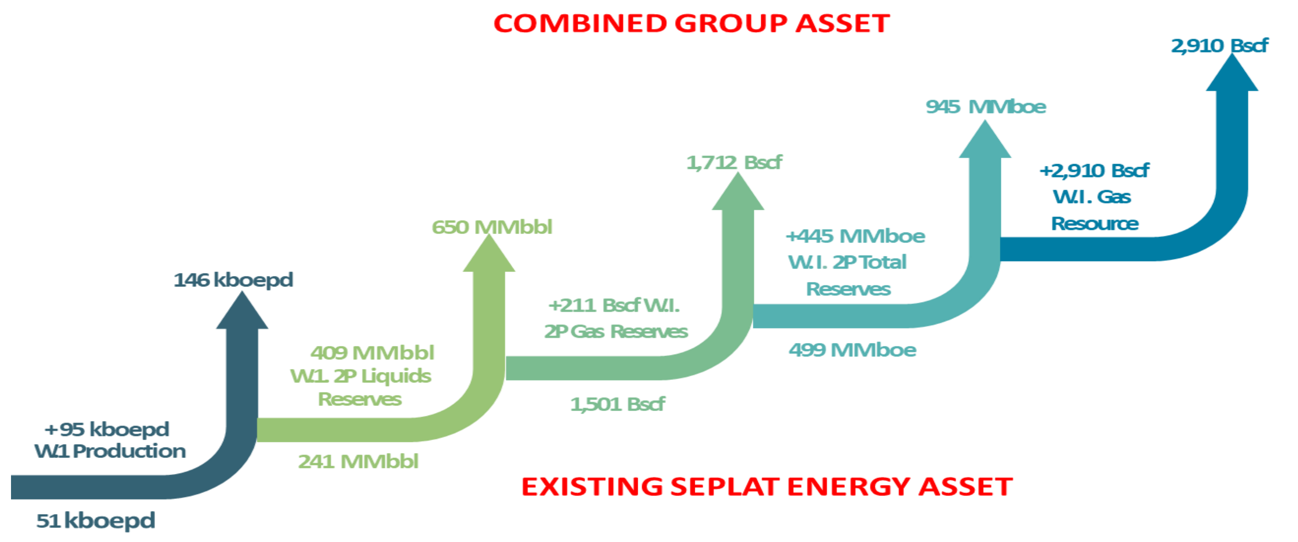
Source: Company Filing, Afrinvest

Chart 7: Shareholding Structure



Source: Company Filings, Afrinvest Research

Chart 8: Asset Capacity of Seplat Energy Post Acquisition of MPNU



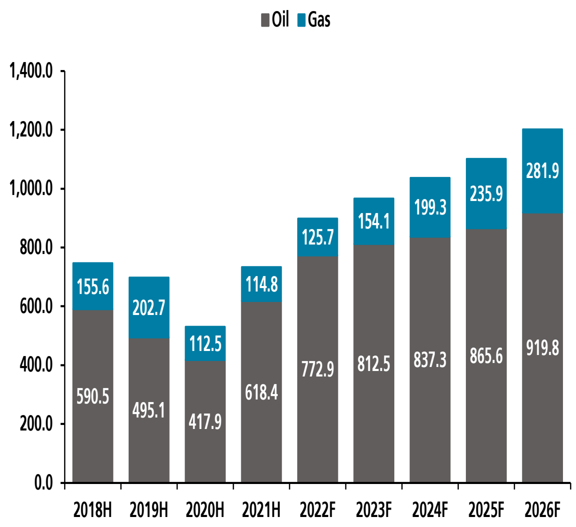
Source: Company Reports, Afrinvest Research

ration and production segment. Seplat's oil revenue grew 48.0% y/y to $618.4m in 2021 (2020: $417.9m), supported by a strong recovery in average crude oil price by 76.5% (from $39.95 in 2020 to $70.54/ bbl in 2021) although oil production dipped 16.2% (2021:8,766 Mbbl; 2020:10,462 Mbbl) due to the constraint by outages at the export routes. Likewise, gas revenue rose 2.0% on the back of a 2.7% increase in sales volume to 40,285 MMscf (2020: 39,208 MMscf) though average gas price fell 0.7% to $2.85 /Mscf. Consequently, total revenue rose 38.2% y/y to $733.2m in 2021. For 2022, we forecast a 22.6% y/y growth in revenue to $898.6m and a CAGR of 7.5% over our 5-year forecast horizon on the back of accretion from onboarding MPNU (Mobil Petroleum Nigeria Unlimited) assets, which is expected to improve production volume and sales. Also, the completion of strategic projects, like the Sibiri exploration well at OML 40 slated for 2022 and Amukpe-Escravos pipeline commissioning would contribute to an uptick in revenue.

Operational Cost Increases on Lower Production

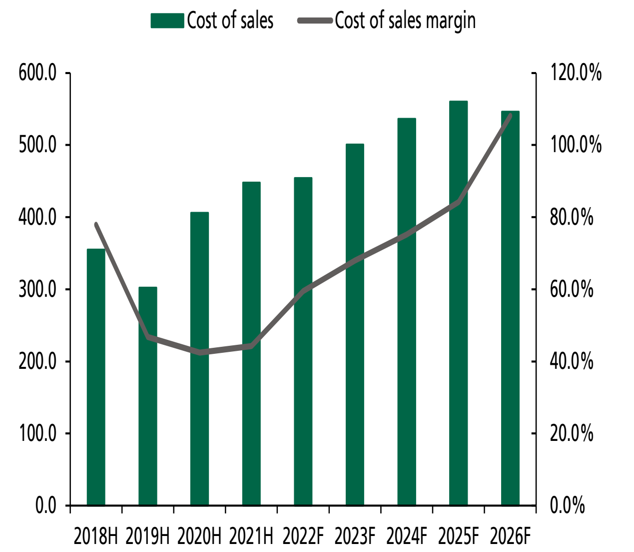
Direct cost to revenue rose 10.4% y/y to $448.0m (5-year average: +11.1%) following an increase in production OPEX to $9.9/boe (2020: $8.9/boe) driven by lower production and unaccrued late charges for OML 40 as well as non-production cost (royalties, depreciation, depletion, and amortization) and operational & maintenance expenses. Additional production volumes from the Eland assets led to the increase in royalties, up 28.1% to $129.8m in 2021. Operational & maintenance costs (maintenance cost, gas flare penalty, warehouse operations, security cost, clean-up cost, fuel supplies, community expenses, and catering services) rose 12.8% y/y to $107.9m in 2021. We also note that asset depletion cost expanded 10.7% y/y to $141.1m from $127.5m in 2020. A faster revenue growth drove cost-to-sales margin lower to 61.1%in 2021 from 76.5% in the prior year. In the year ahead, we forecast cost of sales to increase to $454.0m on the back of higher production levels. Yet, we estimate cost-to-sales margin to print lower at 50.5% due to the sharper 22.6% growth projection for revenue.

Chart 9: Gross Revenue (2018-2026)



Source: Company Financials, Afrinvest Research

Chart 10: Cost of Sales (2018-2026)



Source: Company Financials, Afrinvest Research

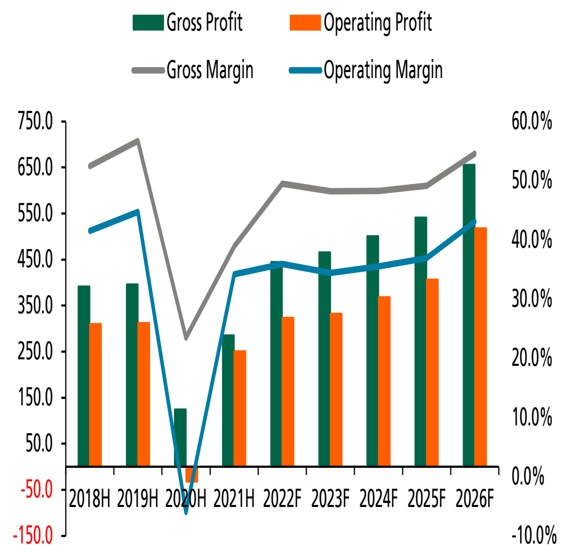
Uptrend in Profitability Metrics Despite Increased Costs

Despite the 10.4% increase in direct cost, the company's gross profit surged 128.9% y/y (above its 5-year average of 28.3%) to $285.2m in 2021. Accordingly, gross profit margin rose to 38.9% y/y compared to 23.5% in 2020. A reduction in impairment provision to $38.1m from $144.3m in 2020 and an impairment reversal of non-financial assets to the tune of $74.7m drove 2021 operating profit to $250.7m (2020: -$31.7m). On the other hand, pre-tax profit surged 321.1% y/y to $177.3m from a loss of $80.2m in 2020 despite finance costs increasing 51.2% y/y to $75.9m (resulting from a one-off transaction cost of $20.4m). Likewise, after-tax profit soared 237.3% y/y to $117.2m from a loss of $85.3m in 2020 despite an increase in tax to $60.2m (2020: $5.1m). Due to higher revenue projection, we expect gross profit to advance to $444.6m in 2022 thus an increase in gross profit margin to 49.5%. Consequently, we expect PBT and PAT to grow by 45.1% y/y apiece in 2022. Also, we project EPS of $0.29 which is 3.2% ahead of the annualized EPS as of H1:2022. Over our forecast horizon, we project a CAGR of 13.7% apiece in PBT and PAT.

Valuation and Recommendation

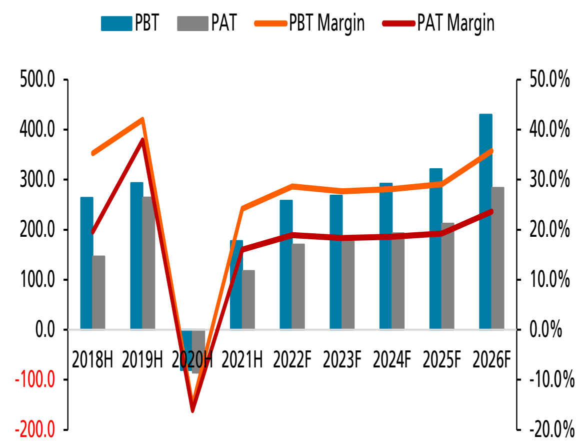
Seplat was valued using a mix of absolute (Dividend Discount Model (DDM) and Discounted Cash Flow (DCF)) and relative (P/E multiple and EV/EBITDA) valuation methodologies. In arriving at our fair value using the absolute valuation, we assumed a risk-free rate of 12.4%, equity risk premium of 4.3%, beta of 0.44, cost of equity of 16.6%, sustainable growth rate of 2.5%, and exchange rate of ₦423.17. The fair values were blended using a ratio of 20:80 to DDM and DCF respectively to arrive at a target price of $2.94. Meanwhile, a blend of the P/E and EV/EBITDA multiples with a weighting of 80:20 respectively resulted in a fair value price of $3.23. Having assigned 20.0% and 80.0% weighting to absolute and relative valuation methodologies respectively, we arrived at our blended 12-month target price of $3.70 (₦1,564.10). Hence, we recommend HOLD as our target price implies an upside potential of 9.3% relative to the close price of ₦1,430.50 as of 26-07-2022.

Chart 11: Gross & Operating Profit (2018-2026)



Source: Company Financials, Afrinvest Research

Chart 12: PBT vs PAT and Margins (2018-2026)



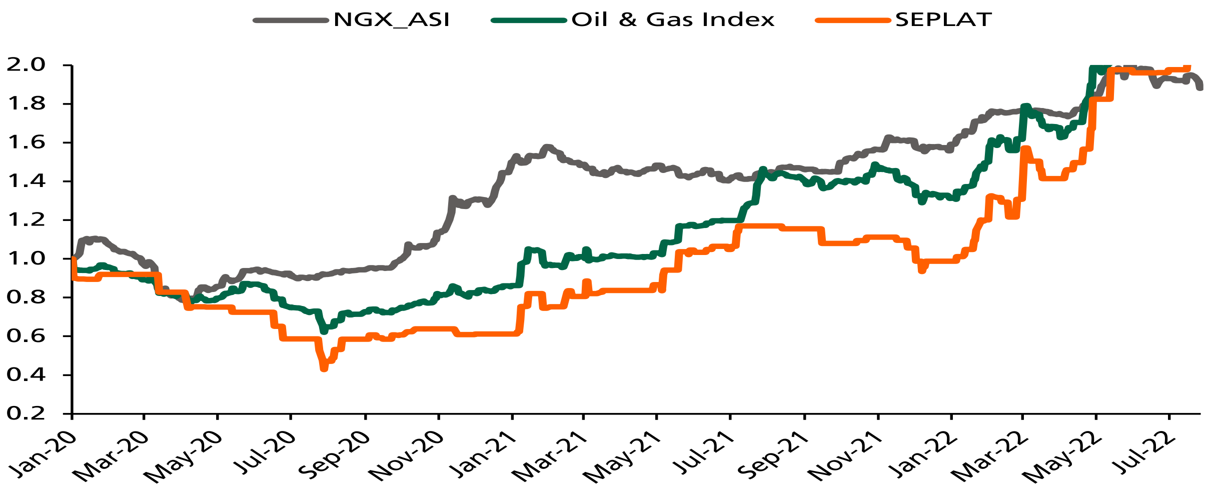
Source: Company Financials, Afrinvest Research

Chart 13: Valaution Summary

Valuation Methodologies			Weighting
Absolute Valuation Methodology			
Valuation Metrics		***Weighting***	
Risk Free Rate (%)	*12.4%*		
Beta	*0.44*		
Risk Premium (%)	*9.7%*		
Cost of Equity (%)	*16.6%*		
Sustainable Growth Rate (%)	*2.5%*		
Dividend Discount Model (DDM)	$0.8	20.0%	20.0%
Discounted Cashflow Model	$3.5	80.0%	
Relative Valuation Methodology			
P/E Valuation		**80.0%**	80.0%
Comparable P/E Multiple	*17.3x*		
Implied Equity Value [$'000]	*2,029,997.2*		
Target Price	$3.4		
EV/EBITDA Valuation		**20.0%**	
Comparable EV/EBITDA Multiple	*8.4x*		
Implied Equity Value [$'000]	*1,371,214.8*		
Target Price	$2.3		
Current Market Price	₦1,430.5		
Blended 12-month Target Price	$3.7		
Blended 12-month Target Price			₦ 1,564.10
Upside Potential			9.3%

Source: NGX, Afrinvest Research

Chart 14: Seplat vs NGX ASI and Oil & Gas Index



Source: Bloomberg, NGX, Afrinvest Research

Global Downstream Oil & Gas Sector

Charting a Recovery Course

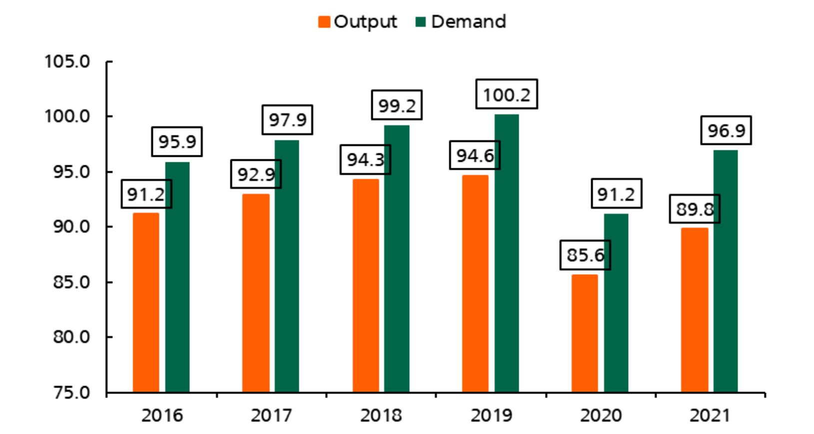
The global demand for petroleum products rose 6.3% y/y to print at 96.9mbpd in 2021 with the supply of petroleum products at 89.8mbpd (+4.9% y/y). The increase was attributed to the economic recovery and rise in air travel and mobile transportation. The distillates (28.8%) and gasoline (26.5%) accounted for 55.2% of oil demand while kerosene (5.6%), residuals (6.6%), and others (32.5%) accounted for 44.8%. In 2022, we expect the demand for petroleum products to remain strong.

The global demand for petroleum products rose 6.3% y/y to print at 96.9mbpd in 2021 with the supply of petroleum products at 89.8mbpd (+4.9% y/y).

For natural gas, OPEC expects demand to increase by around 21.5 mboe/d (thousand of barrel of oil equivalent per day) between 2020 and 2045. This brings total gas demand to 85.7 mboe/d in 2045, thus becoming the second-largest fuel in the energy mix. Consequently, the share of natural gas in the energy mix would increase from around 23.0% to almost 24.5% between 2020 and 2045. We expect global gas demand to grow 33.5% to 85.7 mboe/d by 2045.

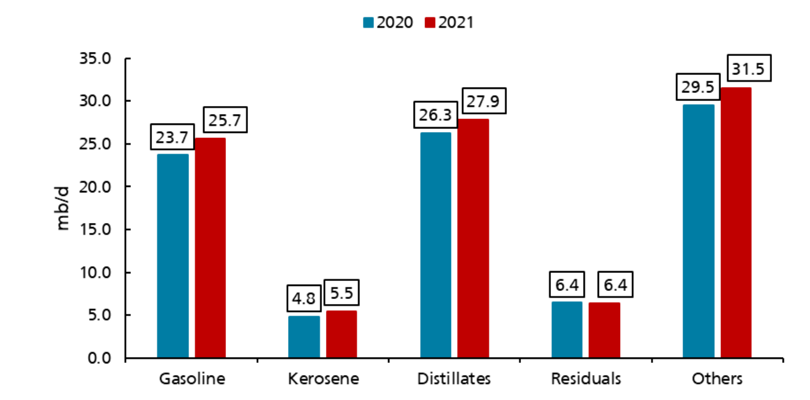
...the share of natural gas in the energy mix would increase from around 23.0% to almost 24.5% between 2020 and 2045.

Chart 15: Global Petroleum Products Markets (mbpd; 2016-2021)



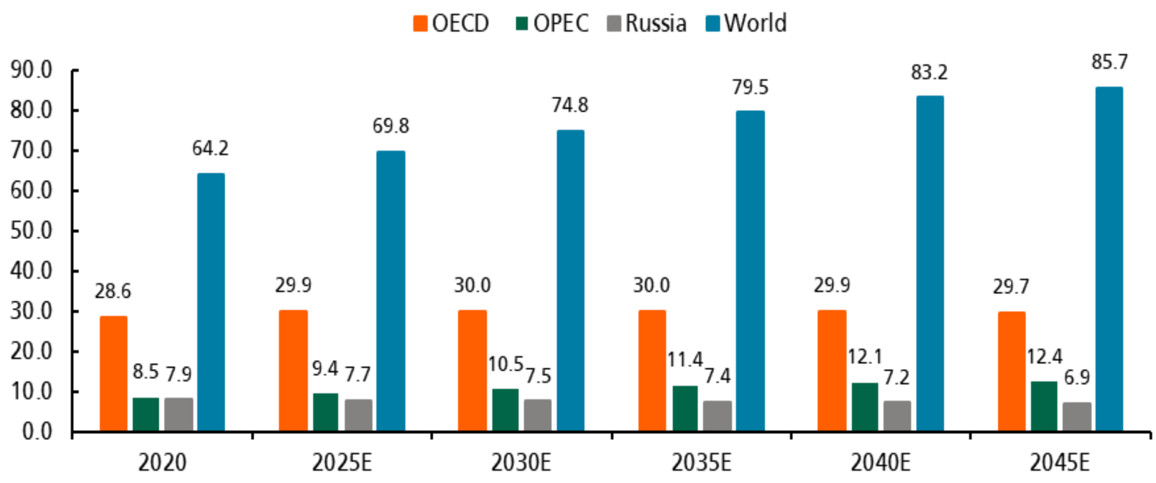
Source: OPEC, Afrinvest Research

Chart 16: World Oil Demand by Petroleum Products



Source: OPEC, Afrinvest Research

Chart 17: Natural Gas Demand (mboe/d)



Source: OPEC, Afrinvest Research

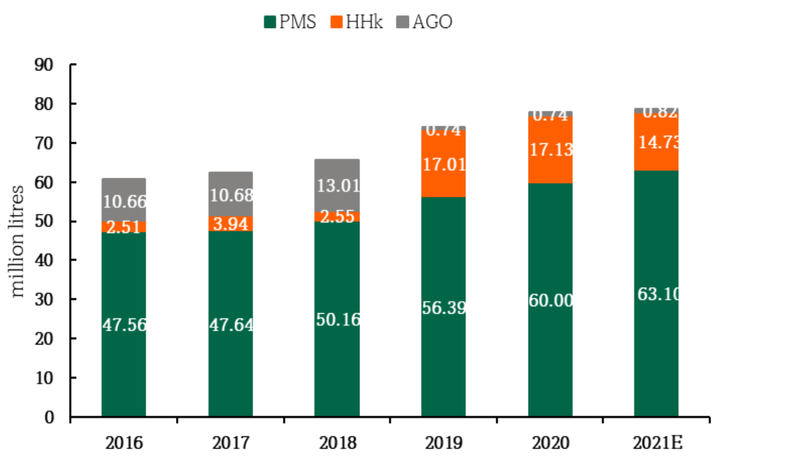
Nigerian Downstream Oil & Gas Industry

Redundant Refineries Buoy Petroleum Products Import

According to the latest NNPC annual statistical bulletin, the daily petroleum products consumption increased 5.0% y/y to 77.9 million litres in 2020 compared to 74.1 million litres in 2019. Based on the consumption data analysis, PMS accounted for a 77.1% (60.0 million litres) share of the petroleum products, while kerosene and diesel accounted for 22.0% (17.1 million litres) and 1.0% (0.7 million litres) respectively. We estimate daily petroleum product consumption to have increased by 5.1% in 2021 (to 81.1m litres) due to the complete lifting of pandemic restrictions and sustained epileptic power supply to businesses and households.

In 2021, 100.0% of petroleum products consumption was met through importation as the three sates refineries recorded zero capacity utilization. We attribute this to the ongoing rehabilitation in the refineries which is expected to further enhance the capacity utilization. Given the near completion of rehabilitation on state-owned refineries and the expected coming on-stream of the 650,000 bpd Dangote refinery in Q4:2022, we anticipate resumption of local supplies of refined product by year end.

Chart 18: Average Daily Consumption of Petroleum Products (2016-2021)



Source: NNPC, Afrinvest Research

Domestic Legislation to Strengthen Gas Adoption Climate Change Bill: A Game Changer for Gas Flaring Menace?

Over the years Nigeria has recorded significant strides in curbing gas flaring to achieve economic and environmental objectives. Since 2000, gas flaring as a percentage of total gas production has decreased from 55.2% to 8.5% and 7.1% in 2019 and 2020 respectively due to decline in oil production. In a bit to consolidate progress, President Muhammadu Buhari in 2021, signed the Nigerian Climate Change Bill into law. The bill, now an Act, provides a framework for achieving low greenhouse gas (GHG) emissions, inclusive of green growth and sustainable economic growth. The Act ensures that Nigeria formulates programmes for achieving

According to the latest NNPC annual statistical bulletin, the daily petroleum products consumption increased 5.0% y/y to 77.9 million litres in 2020 compared to 74.1 million litres in 2019.

In 2021, 100.0% of petroleum products consumption was met through importation as the three sates refineries recorded zero capacity utilization.

Since 2000, gas flaring as a percentage of total gas production has decreased from 55.2% to 8.5% and 7.1% in 2019 and 2020 respectively due to decline in oil production.

its long-term goals on climate change mitigation and adaptation; facilitating the coordination of climate change action needed to achieve long-term climate objectives; and mainstreaming climate change actions in line with national development priorities. One major highlight of the Act is the establishment of the National Council on Climate Change (the Council) which would have the powers of policymaking and decisions on all climate change matters in Nigeria. The Council would coordinate the implementation of sectoral targets and strategies for the regulation of GHG emissions and other man-made causes of climate change. Overall, we expect that gas production and utilization should strengthen over the medium term propelled by Nigeria's commitment to climate action.

One major highlight of the Act is the establishment of the National Council on Climate Change (the Council) which would have the powers of policymaking and decisions on all climate change matters in Nigeria.

Financial Performance of the Sector

Economy Reopening Boosts Revenue

This sector (downstream) update covers Conoil Plc, Ardova Plc, and TotalEnergies Plc, the listed downstream marketing companies under our coverage. Between 2017 and 2021, the revenue of listed oil & gas marketing companies advanced 32.8% (CAGR 5.9%) to ₦669.5bn supported by increased prices and pent-up demand for petroleum products. Across companies' performance, Ardova reported the highest growth – a CAGR of 11.7%, compared to Total (+4.3%) and Conoil (+2.3%). Nonetheless, Total led the industry with a market share of 51.0% up from 40.6% in 2020, while Ardova and Conoil had a share of 30.1% and 18.9% respectively in 2021 based on our computation. In the interim, we expect the demand for white products (AGO, ATK, PMS, DPK) and Lubricants & greases to remain unabated (despite the increase in prices) due to scarce substitute and energy (power) shortage. As such, we anticipate a 13.4 % y/y rise in industry revenue to ₦759.4bn in 2022. Over our forecast horizon, we expect industry revenue to grow at a CAGR of 14.5%.

Between 2017 and 2021, the revenue of listed oil & gas marketing companies advanced 32.8% (CAGR 5.9%) to ₦669.5bn

Cost Margin Weathers Pressure From FX and Inflation

Between 2017 and 2021, the industry cost of sales grew 27.2% (CAGR 6.2%), on the back of currency devaluation, elevated inflation, and higher cost of products. Direct cost grew the most in 2021 by 31.5%. Nonetheless cost-to-sales ratio moderated to 88.6% from 89.5% in the prior year. Total Plc recorded the best cost-to-sales ratio at 83.9%, slightly better than the 85.0% recorded in 2020. Trailing, Conoil's cost margin stood at 91.2% (2020: 91.6%) while Ardova saw a rise in cost-to-sales ratio to 95.1% in 2021 (2020: 93.3%). In addition, industry OPEX rose 11.8% y/y to ₦50.3bn in 2021 [from ₦45.0bn in 2020 driven by exchange rate devaluation, higher administrative expenses (+13.3% y/y) and selling & distribution (+3.5% y/y)] across players. Asides from Conoil, with a 5.4% y/y decline in OPEX, Ardova and Total recorded respective increase of 2.5% y/y and 19.3% y/y in 2021. Notwithstanding, OPEX margin slowed by 1.4ppts y/y to 7.5% in 2021 from 8.9% in 2020, which resulted in an expansion of EBITDA margin to 5.3% in 2021 from 3.4% in 2020 compared to the EBITDA margin of 7.3% recorded in 2017.

Between 2017 and 2021, the industry cost of sales grew 27.2% (CAGR 6.2%), on the back of currency devaluation, elevated inflation, and higher cost of products.

In our forecast, we project an 11.5% y/y increase in industry cost of sales to ₦661.9bn in 2022, in line with our revenue forecast. Against this backdrop, the cost margin is expected to moderate further to 87.2% in 2022 from 88.6% previously. For OPEX, we forecast a 21.6% y/y increase to ₦61.2bn on the back of increases in selling & distribution cost and administrative expenses. Nonetheless, the EBITDA margin should expand to 6.3% in 2022.

Profitability Margin

The industry's PAT has maintained a recovery path since 2021, after slumping by 75.4% between 2017 and 2020. Thus, PAT surged by 200.2% y/y to ₦16.1bn (save for Ardova with a ₦3.8bn loss) in 2021 from ₦5.4bn in 2020, supported by a 717.2% and 114.0% increase in Total and Conoil's PAT. Similarly, the industry ROA rose to 5.0% in 2021 from 2.1% in 2020 whereas ROA was up in 2017 at 6.4%. Likewise, ROE expanded to 22.0% in 2021 from 21.5% and 8.3% respectively in 2017 and 2020. Analysing the drivers of the industry's ROE using DuPont technique, we note that the net margin climbed to 2.4% (up 126bps) in 2021. This was supported by a 4.9% and 2.4% net margin recorded by Total and Conoil respectively. Similarly, asset turnover rose to 2.1x from 2.0x in 2020 while the financial leverage ratio strengthened to 4.8x from 3.9x in the prior year due to the surge in Ardova equity multiplier (7.4x vs 3.6x in 2020) as total assets increased by 95.7% y/y relative to total equity which fell 55.1% y/y. Going forward, we expect industry PAT to increase in 2022 to ₦26.3bn from ₦16.1bn in 2021 in line with the top-line growth. Also, we estimated that the net margin would increase to 3.5% while ROE and ROA would print higher at 26.8% and 29.0% respectively in 2022.

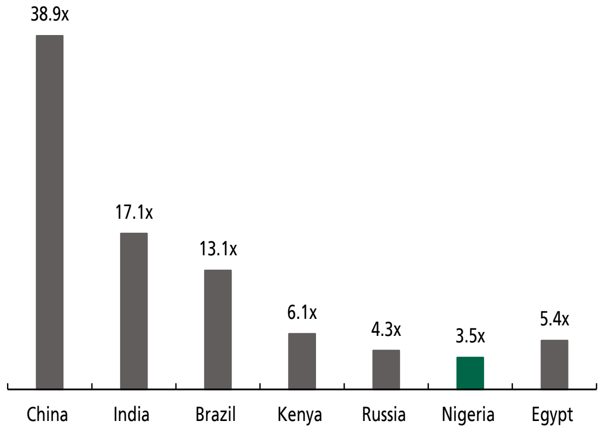
...PAT surged by 200.2% y/y to ₦16.1bn (save for Ardova with a ₦3.8bn loss) in 2021 from ₦5.4bn in 2020, supported by a 717.2% and 114.0% increase in Total and Conoil's PAT.

Industry Pricing and Sector Valuation

Across our coverage companies, we issued a "BUY" rating on TOTAL and CONOIL while ARDOVA's valuation informed an "ACCUMULATE" recommendation. For TOTAL, we expect its strong presence in the Aviation Turbine & Kerosene (ATK) and Lubricant markets alongside a solid cost structure to deliver quality earnings growth. Meanwhile, we expect CONOIL's effective implementation of cost control to buoy impressive top and bottom-line. ARDOVA is focused on product distribution capacity expansion and cost-optimization to solidify its position within the industry which is positive for both short- and long-term outlooks. Compared to selected market peers (downstream) with an average P/E ratio of 14.1x, the Nigerian downstream oil companies (c.3.1% of total NGX equities capitalisation as of 30/06/2022) is priced at 3.5x. This discount highlights poor investor sentiment and a weak outlook resulting from a tight regulatory environment due to a lack of clarity on policy direction (for instance, the postponement of the implementation of PIA), price controls, redundant refineries, and vandalism. However, we expect the industry players to sustain their resilient performance and deliver decent returns to investors. We also expect the full implementation of the PIA to restore investment interest in the sector.

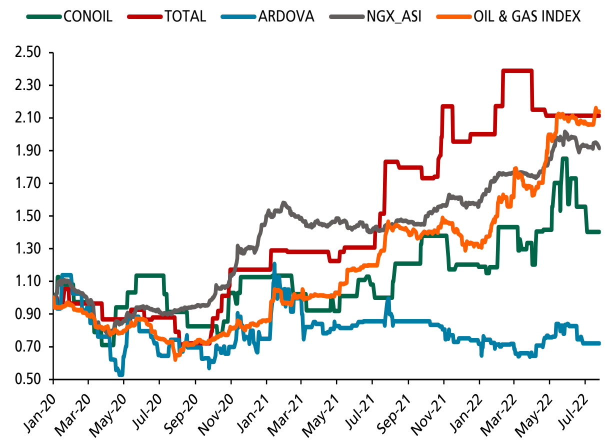
Compared to selected market peers (downstream) with an average P/E ratio of 14.1x, the Nigerian downstream oil companies (c.3.1% of total NGX equities capitalisation as of 30/06/2022) is priced at 3.5x.

Chart 19: P/E Across Selected African and BRICS Countries



Source: Bloomberg, Afrinvest Research

Chart 20: Performance of NGX-ASI and Coverage Stocks in 2021



Source: NGX, Afrinvest Research

Chart 21: 2022 Industry Financial Highlight Forecast

	CONOIL	ARDOVA	TOTALENERGIES
Financial Highlight (₦'bn)	**2022F**	**2022F**	**2022F**
Revenue	137.8	237.2	384.3
OPEX	8.2	12.7	40.2
EBITDA	6.9	8.9	31.9
PBT	5.5	2.6	28.6
PAT	4.0	1.8	20.5
Operating and Profitability Margins			
OPEX Margin	6.0%	5.3%	10.5%
EBITDA Margin	5.0%	3.8%	8.3%
PBT Margin	4.0%	1.1%	7.4%
Dupont Analysis			
ROE	17.1%	9.5%	37.2%
Net Margin	2.9%	0.8%	5.3%
Leverage	2.4x	6.5x	4.0x
Asset Turnover	2.4x	1.9x	1.7x
Valuation Metrics			
Current TP (₦)	35.42	15.45	307.37
Recommendation	BUY	ACCUMMULATE	BUY
Price @ 26/7/2022 (₦)	25.95	13.05	234.50
Upside Potential	36.5%	18.4%	31.1%
Valuation Assumption			
Risk-Free Rate	12.4%	12.4%	12.4%
Beta	52.0%	99.0%	52.0%
Risk Premium	9.7%	9.7%	9.7%
Cost of Equity	17.4%	22.0%	17.4%
Sustainable Growth Rate	2.0%	2.0%	2.0%
Marketing Price Metrics			
P/E	6.2x	9.5x	3.9x
P/BV	0.7x	0.9x	1.4x
EV/EBITDA	5.5x	1.9x	6.5x

Source: Bloomberg, NGX, Afrinvest Research

Ardova Plc

Business Acquisition Dampens Profitability

Company Overview

Ardova Plc ("the company" or "Ardova") is an indigenous company operating in the Nigeria downstream oil & gas industry. Since its incorporation as British Petroleum (Nigeria) in 1964, the company has evolved into an integrated energy company with one of the fastest-growing business portfolios within the energy sector. The company has its headquarters in Nigeria, and it operates 450 retail outlets across 4 geographical zones, specializing in the distribution of a wide range of petroleum products such as Petroleum Motor Spirit (PMS), diesel, kerosene, and aviation fuels as well as a range of lubricants. Also, Ardova develops clean energy hubs, mini-grids and provides renewable energy solutions through its solar business unit. In 2020, the company incorporated a wholly owned subsidiary (Axles and Cartage Limited) involved in haulage and transportation to have end-to-end control & efficiency of the supply chain of its products (PMS, ATK, AGO, LPG). To gain more customers and improve their capacity to distribute more product volume, Ardova acquired Enyo Retail & Supply Limited in 2021 which added 95 retail outlets to Ardova's existing 450 retail outlets, growing the group's portfolio to 545 retail outlets nationwide. The company raised ₦25.3bn bonds under its ₦60.0bn debt issuance programme in 2021. The bond issued was the largest local bond issuance by an indigenous oil and gas company and it attracted participation from a diverse range of institutional investors. Ardova has an issuer rating of A- by GCR with the outlook accorded as stable.

Financial Performance

In 2021, Ardova's revenue grew by 10.7% y/y to settle at ₦201.4bn, in line with the historical performance of impressive top line growth (4-year average: +12.1%). Like the industry peers, performance was driven by the higher volumes and prices of petroleum products as economic activities fully reopened. In terms of business segments, Ardova reported fuel sales of ₦174.5bn (+6.0%y/y) in 2021, accounting for 86.6% of total turnover, lubricants & grease delivered revenue of ₦25.8bn (+52.2% y/y) representing 12.8% of total turnover, and Liquefied Petroleum Gas (LPG) & Cylinder business contrib-

Trading Data -ARDOVA			
Rating			ACCUMULATE
Share Price (₦) (26/7/2022)			13.05
12-month TP (₦)			15.45
Upside Potential			18.4%
52-Weeks High (₦)			18.00
52-Weeks Low (₦)			11.55
Outstanding Shares (bn)			1.3
Free Float (%)			11.2
Market Cap ₦'bn			17.0
Market Cap US$'m			40.2
Profitability			
	2021	2022F	2023F
Revenue (₦'bn)	201.4	237.2	279.0
EBITDA (₦'bn)	1.7	8.9	10.3
PAT (₦'bn)	-3.8	1.8	3.6
EPS (₦)	-2.95	1.37	2.75
P/E Ratio	-4.4x	9.5x	4.8x
EV/EBITDA	9.8x	1.9x	1.6x
Dividend Yield		3.4%	1.6%

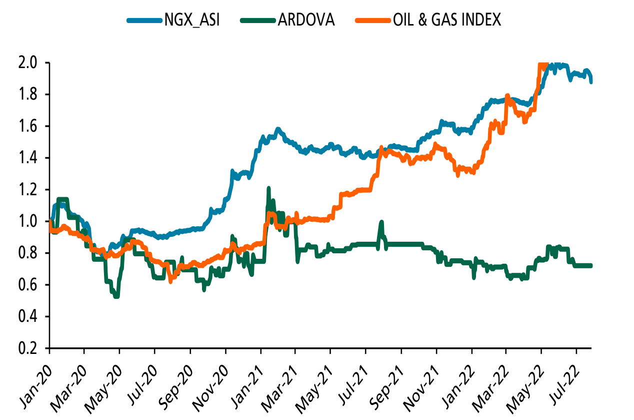
Source: Company Filing, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost Of Equity 19.0%	20.5%	22.0%	23.5%	25.0%
1.0%	17.42	16.12	15.01	14.06	13.23
1.5%	17.73	16.37	15.22	14.24	13.38
2.0%	18.06	16.64	15.45	14.42	13.54
2.5%	18.40	16.92	15.68	14.62	13.70
3.0%	18.77	17.22	15.92	14.82	13.87

Source: Company Filing, Afrinvest Research

Chart 22: ARDOVA VS NGX-ASI and Oil & Gas Index



Source: Bloomberg, Afrinvest Research

uted ₦391.5m accounting for 0.2% of total turnover. Direct cost rose 12.8% to ₦191.6bn in 2021 from ₦169.8bn in 2020, owing to a 69.8% increase in the costs attributable to the sales of lubricants & greases. Thus, the cost-to-sales margin rose to 95.1% in 2021 relative to 93.3% in 2020. Likewise, gross profit dipped by 18.8% y/y to ₦9.8bn in 2021 from ₦12.1bn in 2020. Due to the higher operating expenses (+3.0% y/y), its operating margin moderated to 0.4% in 2021 from 2.3% in 2020. Similarly, EBITDA margin declined to 0.9% in 2021 from 2.3% in 2020. Further down, one-off cost (Enyo acquisition cost) and a 138.5% increase in interest expenses (due to a rise in debt) dragged PAT to -₦3.8bn. The company's ROE worsened to -22.5% in 2021 from 10.3% in 2020 due to net margin and asset turnover contraction to -1.9% and 1.6 x in 2021 from 1.0% and 2.8x in the prior year. In addition, Ardova recorded a negative operating cash flow of ₦6.6bn in 2021 relative to ₦3.2bn in 2020. Also, CAPEX climbed 271.0% to ₦23.1bn in 2021 from ₦6.2bn in 2020.

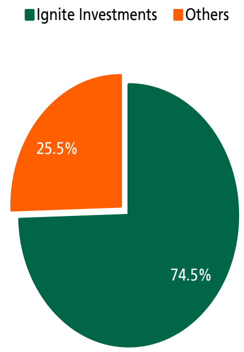
Outlook

The recent acquisition of Enyo Retail & Supply limited is set to increase the retail outlets by c.21.1% to 545 (previously 450) and this would improve the distribution capacity of product volume. In the near term, we expect sustained growth in the prices of lubricants & grease and petroleum products to buoy revenue growth. As such, we project a 17.8% revenue growth to ₦237.2bn in 2022. In the long term, Ardova's management expects its 20,000 metric tonnes LPG storage facility (slated to be completed in December 2022) to improve distribution capacity. Furthermore, the cost of sales is forecasted to grow 14.3% to ₦218.9bn in 2022. Nonetheless, the cost-to-sales margin is estimated to moderate to 92.3% in 2022. Despite a 14.1% rise in selling and administrative expenses, we forecast EBITDA to increase to ₦8.9bn in 2022. Thus, the EBITDA margin is expected to improve to 3.8% in 2022 from 0.9% previously. Also, we project PAT and EPS to print at ₦1.8bn and ₦1.37 in 2022 respectively.

Valuation and Recommendation

In valuing Ardova, we adopted a blend of absolute (Dividend Discount Model (DDM), Discounted Cash Flow (DCF), and Residual Income Model (RIM)) and relative (EV/EBITDA multiple) valuation methodologies. For the absolute valuation, we assumed a risk-free rate of 12.4%,

Chart 23: Shareholder's Structure



Source: Company Filings, Afrinvest Research

Chart 24: Valuation Summary

Valuation Methodologies			**Weighting**
Absolute Valuation Methodology			
Valuation Metrics		***Weighting***	
Risk Free Rate (%)	*12.4%*		
Beta	*0.99*		
Risk Premium (%)	*9.7%*		
Cost of Equity (%)	*22.0%*		
Sustainable Growth Rate (%)	*22.0%*		
Dividend Discount Model (DDM)	₦ 1.4	10.0%	
Discounted Cashflow Model	₦ 6.7	10.0%	70.0%
Residual Income	₦ 20.1	80.0%	
Relative Valuation Methodology			
EV/EBITDA Valuation		**60.0%**	
Comparable EV/EBITDA Multiple	*5.4x*		30.0%
Implied Equity Value [₦'m]	*3,659.8*		
Target Price	₦ 2.8		
Current Market Price	₦13.1		
Blended 12-month Target Price			**₦ 15.4**
Upside Potential			**18.4%**

Source: NGX, Afrinvest Research

an equity risk premium of 9.7%, a cost of equity of 22.0%, a beta of 0.99, and a sustainable growth rate of 2.0% over the forecast horizon. Also, the fair value of ₦16.89 was arrived at using a weight of 10:10:80 to blend DDM, DCF, and RIM valuations. For Relative valuation, the EV/EBITDA arrived at a valuation of ₦2.81. Combining the blended absolute valuation and blended relative valuation in a ratio of 70:30, we arrived at a fair value per share of ₦12.66, translating to a 12-month target price of ₦15.45. Considering a closing share price of ₦13.05 on 26-07-2022, Ardova has a potential upside of 18.4% informing our ACCUMULATE recommendation.

AFRINVEST RESEARCH

Oil & Gas Sector Update

August 2022

Conoil Plc

Cost Management Buoys Performance

Company Overview

Conoil Plc (“the Company or Conoil”) is a Nigerian petroleum marketing company involved in the sale of refined petroleum products across three core segments- White products, Lubricants, and Liquefied Petroleum Gas (LPG). The Company was incorporated in 1960, as a limited liability company but converted to a public limited liability company in 1991. In 2002, the company was acquired by Conpetro and it was renamed from National Oil and Chemical Marketing Plc to Conoil Plc.

Financial Performance

In 2021, Conoil’s revenue grew 7.9% y/y to ₦126.7bn (but below the pre-pandemic average of 14.6% between 2016 and 2019) due to an increase in volumes and prices of petroleum products and lubricants. The white products and lubricants sales rose 6.8% and 22.9% y/y respectively to ₦117.0bn and ₦9.7bn in 2021. Cost of sales advanced 7.4% to ₦115.6bn, driven by direct cost from the white products segment, which rose 7.1% to ₦108.8bn. Likewise, the cost of sales for lubricants trended northward by 11.5% to ₦6.8bn. Nevertheless, Conoil’s cost-to-sales margin moderated slightly by 0.4ppt to 91.2% in 2021 from 91.6% in the prior year, implying a gross margin increase of 0.4ppt to 8.8% in 2021. The effective implementation of cost control measures buoyed operating income to ₦4.5bn in 2021 as OPEX declined to ₦6.8bn in 2021 from ₦7.3bn previously. As such, the EBITDA margin expanded to 4.0% in 2021 from 3.0% previously. Accordingly, the positive result trickled down to PBT and PAT which expanded by 78.6% and 114.0% respectively to ₦3.8bn and ₦3.1bn in 2021. The company’s ROE widened to 14.1% in 2021 (above its 3-year average of 9.1%) due to an expansion in net margin to 2.4% from 1.2% in 2020. Meanwhile, Conoil reported a negative operating cash flow of ₦4.6bn relative to ₦9.9bn in 2020. Also, CAPEX dipped 73.1% to ₦38.5m from ₦132.1m in 2020.

Outlook

In the near term, we expect the demand for white products (PMS, AGO, and DPK) and lubricants to remain persistent. This expected demand as well as higher prices are anticipated to support Conoil’s revenue. As such we projected an 8.8%y/y rise in revenue to ₦137.8bn as white products and lubricants are projected to grow by 7.8% y/y and 20.3% y/y respectively. Over the forecast period (2022-2026), we estimate revenue to grow at a 12.5% CAGR. The cost of sales is forecasted to increase by 6.8% to ₦123.4bn in 2022 supported by the cost of producing lubricants. Nonetheless, we expect a 28.8% uptick in gross profit to the tune of ₦14.4bn in 2022. We forecast the top line performance to grow PAT to ₦3.9bn in 2022 (H1:2022 PAT stood at ₦1.8bn). Also, we project EPS of ₦5.74 which is 9.9% ahead

Trading Data - CONOIL			
Rating			BUY
Share Price (₦) (26/7/2022)			25.95
12-month TP (₦)			35.42
Upside Potential			36.5%
52-Weeks High (₦)			34.25
52-Weeks Low (₦)			20.35
Outstanding Shares (bn)			0.7
Free Float (%)			24.3
Market Cap ₦'bn			18.0
Market Cap US$'m			42.6
Profitability			
	2021	2022F	2023F
Revenue (₦'bn)	126.7	137.8	153.3
EBITDA (₦'bn)	5.1	6.9	8.4
PAT (₦'bn)	3.1	4.0	5.2
EPS (₦)	4.44	5.74	7.56
P/E Ratio	8.0x	6.2x	4.7x
EV/EBITDA	7.5x	5.5x	4.5x
Dividend Yield	5.8%	7.1%	6.9%

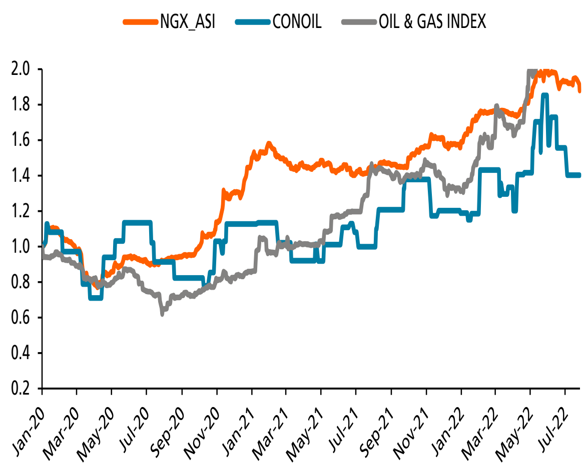
Source: Company Filing, Afrinvest

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	14.4%	15.9%	17.4%	18.9%	20.4%
1.0%	39.02	36.50	34.47	32.81	31.43
1.5%	39.76	37.07	34.93	33.18	31.74
2.0%	40.55	37.69	35.42	33.58	32.06
2.5%	41.41	38.35	35.94	33.99	32.41
3.0%	42.34	39.06	36.49	34.44	32.77

Source: Company Filing, Afrinvest

Chart 25: CONOIL VS NGX-ASI and Oil & Gas Index



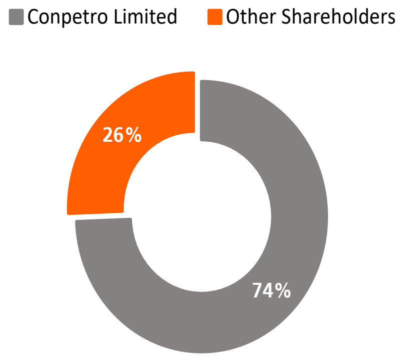
Source: Bloomberg, Afrinvest Research

of the annualized EPS as of H1:2022.

Valuation and Recommendation

In arriving at our target price, we adopted a blend of absolute (Dividend Discount Model, (DDM), Discounted Cash Flow, (DCF), and Residual Income Model (RIM)) and relative (P/E multiple and EV/EBITDA multiple) valuation methodologies. We also adopted a risk-free rate of 12.4%, an equity risk premium of 9.7%, a cost of equity of 17.4%, a beta of 0.52, and a sustainable growth rate of 2.0% over the forecast horizon. In addition, the fair value of ₦32.21 was derived using a weight of 50:50 to blend DDM and DCF valuations. For relative valuation, the P/E multiple and EV/EBITDA were blended in a 40:60 ratio to reach a valuation of ₦27.09. Combined, the blended absolute and relative valuations in a ratio of 60:40, yielded a fair value per share of ₦31.37, translating to a 12-month target price of ₦35.42. Considering a closing share price of ₦25.95 on the 26-07-2022, Conoil has a potential upside of 36.5%, informing our "BUY" recommendation.

Chart 26: Shareholder's Structure



Source: Company Filings, Afrinvest Research

Chart 27: Valuation Summary

Valuation Methodologies			Weighting
Absolute Valuation Methodology			
Valuation Metrics		*Weighting*	
Risk Free Rate (%)	*12.4%*		
Beta	*0.52*		
Risk Premium (%)	*9.7%*		
Cost of Equity (%)	*17.4%*		
Sustainable Growth Rate (%)	*2.0%*		
Dividend Discount Model (DDM)	**₦ 10.8**	50.0%	60.0%
Discounted Cashflow Model	**₦ 53.6**	50.0%	
Relative Valuation Methodology			
P/E Valuation		**40.0%**	40.0%
Comparable P/E Multiple	*5.9x*		
Implied Equity Value [₦'m]	*18,224.2*		
Target Price	**₦ 26.3**		
EV/EBITDA Valuation		**60.0%**	
Comparable EV/EBITDA Multiple	*3.9x*		
Implied Equity Value [₦'m]	*19,181.6*		
Target Price	**₦ 27.6**		
Current Market Price	**₦26.0**		
Blended 12-month Target Price			**₦ 35.4**
Upside Potential			**36.5%**

Source: NGX, Afrinvest Research

TotalEnergies Plc

Impressive Topline Fuels EPS Expansion

Company Overview

TotalEnergies Marketing Nigeria Plc, formerly "Total Nigeria Plc" ("Total" or "the Company") is a foremost player in Nigeria's downstream. The company is a marketing and services subsidiary of multinational integrated energy company TotalEnergies which has a presence in over 130 countries. The company was incorporated as a private company on June 1, 1956, to market petroleum products locally. Since that time, Total has expanded its reach and network to more than 570 service stations with product and service offerings diversified across fuels, car & industrial lubricants, solar solutions, special fluids/solvents, and aviation fuels. In 2021, Total Nigeria Plc changed its name to TotalEnergies Marketing Nigeria Plc to reflect its key pillars of gas and renewable electricity as well as the ongoing transition to carbon neutrality by 2050.

Financial Performance

Over the years, Total has recorded an impressive turnover growth with a 5-year CAGR of 8.9% which reflects its historical strong presence in the Aviation Turbine & Kerosene (ATK) & lubricant market and effective cost management. In 2021, the increased sales as economic activities fully reopened reversed the decline in Total's topline in 2020 as revenue jumped 66.7% y/y to ₦341.3bn. Across income segments, sales of Petroleum products grew 62.5% to ₦255.2bn supported by the low base of ₦157.1bn. Also, pent-up demand, as businesses fully reopened, drove petroleum sales to corporates excluding Aviation customers higher by 199.1% to ₦95.3bn while the resumption of flights resulted in a 177.9% upsurge in fuel to Aviation customers. On the other hand, sales to service stations rose 11.4% y/y to ₦125.7bn, accounting for 49.3% of Total's petroleum product market. Likewise, the increase in activity level boosted Total's Lubricants and other products (by 80.7% to ₦86.1bn in 2021). Despite the 64.6% y/y rise in direct cost following higher net changes in inventories (+62.1% y/y to ₦277.4bn), the cost margin improved by 110bps y/y to 83.9% in 2021 against the industry average of 89.5%. Likewise, EBIT grew by 752.5% y/y to ₦21.3bn in 2021, shrugging off the impact of higher OPEX (+19.5% y/y to ₦33.5bn). Consequently, EBITDA rose 208.1% y/y to ₦28.5bn, expanding the

Trading Data -TotalEnergies			
Rating			BUY
Share Price (₦) (26/7/2022)			234.50
12-month TP (₦)			307.37
Upside Potential			31.1%
52-Weeks High (₦)			264.90
52-Weeks Low (₦)			192.00
Outstanding Shares (bn)			0.3
Free Float (%)			38.0
Market Cap ₦'bn			79.6
Market Cap US$'m			188.1
Profitability			
	2021	2022F	2023F
Revenue (₦'bn)	341.3	384.3	440.2
EBITDA (₦'bn)	28.5	31.9	37.7
PAT (₦'bn)	16.9	20.5	25.3
EPS (₦)	49.66	60.49	74.59
P/E Ratio	4.7x	3.9x	3.1x
EV/EBITDA	7.3x	6.5x	5.5x
Dividend Yield	4.4%	5.4%	4.1%

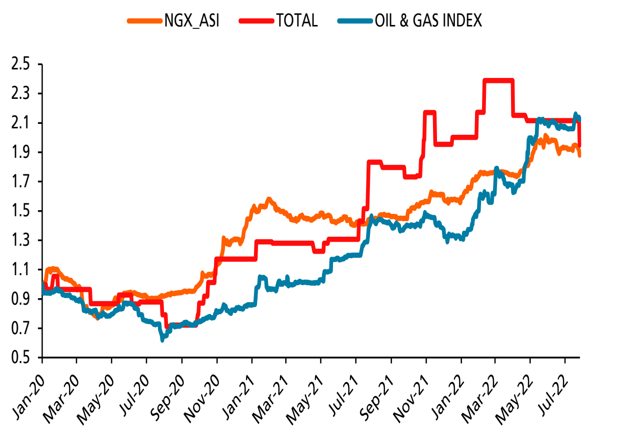
Source: Company Filing, Afrinvest

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	14.4%	15.9%	17.4%	18.9%	20.4%
1.0%	368.27	329.92	298.79	273.08	251.53
1.5%	375.82	335.46	302.92	276.19	253.91
2.0%	384.07	341.46	307.37	279.53	256.44
2.5%	393.15	348.01	312.18	283.13	259.16
3.0%	403.18	355.17	317.41	287.02	262.08

Source: Company Filing, Afrinvest

Chart 28: TOTAL VS NGX-ASI and Oil & Gas Index



Source: Bloomberg, Afrinvest

EBITDA margin to 8.4% from 4.5% in 2020. Down the line, Total's PBT rose 753.7% to ₦24.8bn, while PAT advanced 717.2% to ₦16.9bn. The Company's ROE advanced to 40.5% in 2021 (higher than its 3-year average of 13.8%) supported by an improvement in net margin and asset turnover to 4.9% and 1.6x in 2021 from 1.0% and 1.4x in the prior year. Similarly, EPS rose to ₦49.66 relative to ₦6.09 in 2020. Also, Total reported a 206.3% jump in operating cash flow to ₦31.2bn (2020: ₦10.2bn) while CAPEX advanced 20.0% to ₦10.2m from ₦8.4m in 2020.

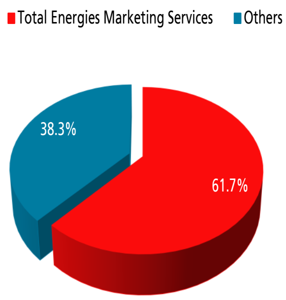
Outlook

Total commenced the installation of its end-of-line automated machines at its blending plants and would be completed in 2022. Management confirmed that the automated machine is expected to increase the production output of small pack lubricants by 30.0%. For the Aviation business, we expect the growth in fuel sales to be sustained given air travels are still below the pre-pandemic level and increased demand for other petroleum products (PMS, AGO) and lubricants despite the large traction recorded in 2021. Overall, we forecast FY-22 combined revenue at ₦384.3bn (+12.6% y/y) with Petroleum products and Lubricants up 7.9% and 26.5% y/y to ₦275.4bn and ₦108.9bn respectively. On the cost side, direct cost is projected to rise 11.6% to ₦319.5bn in line with our forecast for revenue growth and view that the global energy price surge would dovetail into higher costs for marketers in the light of sustained price regulation. However, slightly stronger revenue gains should translate to a marginal improvement in the cost-to-sales margin to 83.1% in 2022. We project revenue growth to lift the bottom line by 21.8% y/y to ₦20.5bn in 2022 (Q1:2022 PAT stood at ₦4.4bn).

Valuation and Recommendation

For Total's valuation, we adopted a mix of absolute (Discounted Cashflow, Dividend Discount, and Residual Income Model) and relative (P/E multiple and EV/EBITDA multiples) valuation methodologies. For the absolute valuation, we assumed a risk-free rate of 12.4%, equity risk premium of 9.7%, cost of equity of 17.4%, a beta of 0.52, and a sustainable growth rate of 2.0% over the forecast horizon. Also, the fair value of ₦237.7 was arrived at using a weight of 20:30:50 to blend DCF, DDM, and RIM valuations. For Relative valuation, the P/E multiple and EV/EBITDA were blended in an 80:20 ratio to arrive at a valuation of ₦357.9. Combining the blended absolute valuation and blended relative valuation in a ratio of 80:20, we arrived at a fair value per share of ₦261.77, translating to a 12-month target price of ₦307.37. Considering a closing share price of ₦234.50 on 26-07-2022, Total has a potential upside of 31.1% informing our BUY recommendation on the stock.

Chart 29: Shareholder's Structure



Source: Company Filings, Afrinvest Research

Chart 30: Valuation Summary

Valuation Methodologies			Weighting
Absolute Valuation Methodology			
Valuation Metrics		*Weighting*	
Risk Free Rate (%)	*12.4%*		
Beta	*0.52*		
Risk Premium (%)	*9.7%*		
Cost of Equity (%)	*17.4%*		
Sustainable Growth Rate (%)	*2.0%*		
Dividend Discount Model (DDM)	**₦ 65.9**	30.0%	80.0%
Discounted Cashflow Model	**₦ 753.4**	20.0%	
Residual Income	**₦ 134.6**	50.0%	
Relative Valuation Methodology			
P/E Valuation		**80.0%**	20.0%
Comparable P/E Multiple	*6.5x*		
Implied Equity Value [₦'m]	*109,491.4*		
Target Price	**₦ 322.5**		
EV/EBITDA Valuation		**20.0%**	
Comparable EV/EBITDA Multiple	*4.3x*		
Implied Equity Value [₦'m]	*169,662.2*		
Target Price	**₦ 499.7**		
Current Market Price	**₦234.5**		
Blended 12-month Target Price			**₦ 307.4**
Upside Potential			**31.1%**

Source: NGX, Afrinvest Research

Appendix

ARDOVA PLC

ARDOVA Plc	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)					FORECAST HORIZON				
Turnover	134,706.3	176,550.8	181,938.7	201,440.1	237,220.4	279,041.2	333,191.4	402,795.1	491,231.6
Gross profit	11,330.1	11,281.7	12,130.5	9,849.0	18,223.9	20,406.2	23,750.4	29,704.0	33,265.5
EBITDA	2,511.4	2,758.8	4,184.1	1,720.2	8,948.2	10,348.5	10,922.7	14,445.5	14,856.7
Operating Profit	2,949.1	4,924.4	4,137.0	785.8	7,619.2	9,814.3	10,538.2	13,817.1	14,472.6
Profit before Tax	1,028.5	4,654.1	2,905.5	- 2,941.8	2,632.6	5,261.0	5,954.0	9,716.9	11,097.3
Profit After Tax	631.5	3,915.1	1,858.0	- 3,848.3	1,790.1	3,577.5	4,048.7	6,607.5	7,546.2
Non-current Asset	11,043.3	14,855.6	18,765.5	46,204.7	44,664.4	43,616.5	42,629.3	41,548.4	40,567.8
Total Asset	61,198.3	47,019.0	64,846.5	126,879.7	119,468.5	136,122.5	149,774.4	167,028.1	189,431.1
Net Asset	13,749.0	16,163.3	18,021.3	16,123.5	18,310.7	21,610.7	25,289.5	31,486.7	38,680.3
Profitability Ratios									
Gross Profit Margin	8.4%	6.4%	6.7%	4.9%	7.7%	7.3%	7.1%	7.4%	6.8%
EBITDA Margin	1.9%	1.6%	2.3%	0.9%	3.8%	3.7%	3.3%	3.6%	3.0%
OPEX Margin	7.6%	6.0%	5.2%	4.9%	5.4%	4.6%	4.6%	4.5%	4.3%
Operating Profit Margin	2.2%	2.8%	2.3%	0.4%	3.2%	3.5%	3.2%	3.4%	2.9%
PBT Margin	0.8%	2.6%	1.6%	-1.5%	1.1%	1.9%	1.8%	2.4%	2.3%
Net Margin	0.5%	2.2%	1.0%	-1.9%	0.8%	1.3%	1.2%	1.6%	1.5%
ROAE	4.6%	24.2%	10.3%	-22.5%	9.8%	16.6%	16.0%	21.0%	19.5%
ROAA	1.0%	8.3%	2.9%	-3.0%	1.5%	2.6%	2.7%	4.0%	4.0%
Liquidity Ratios									
Current Ratio (x)	1.4x	1.3x	1.1x	1.4x	1.3x	1.4x	1.4x	1.3x	1.3x
Quick Ratio (x)	1.1x	0.8x	0.8x	1.0x	1.0x	1.0x	1.0x	0.9x	0.9x
Cash ratio (x)	0.0x	0.1x	0.1x	0.3x	0.3x	0.4x	0.3x	0.3x	0.3x
Du-Pont Analysis									
ROE	4.6%	24.2%	10.3%	-22.5%	9.8%	16.6%	16.0%	21.0%	19.5%
Net Margin	0.5%	2.2%	1.0%	-1.9%	0.8%	1.3%	1.2%	1.6%	1.5%
Asset Turnover (x)	2.2x	3.8x	2.8x	1.6x	2.0x	2.0x	2.2x	2.4x	2.6x
Leverage (x)	4.5x	2.9x	3.6x	7.4x	6.5x	6.3x	5.9x	5.3x	4.9x

CONOIL PLC

Conoil Plc	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)					FORECAST HORIZON				
Turnover	122,213.0	139,758.3	117,470.6	126,726.4	137,816.4	153,345.4	172,227.7	194,452.2	220,705.8
Gross profit	12,770.9	13,439.3	9,818.4	11,161.3	14,370.4	16,404.2	18,217.2	20,548.5	23,322.8
EBITDA	4,969.3	4,775.2	3,532.9	5,056.7	6,851.5	8,418.3	9,329.9	10,292.0	11,814.8
Operating Profit	4,040.1	3,878.0	2,715.7	4,473.3	6,261.6	8,028.4	9,002.4	9,991.6	11,502.3
Profit before Tax	2,566.8	2,832.5	2,145.5	3,831.8	5,545.1	7,258.3	8,194.3	9,222.6	10,684.4
Profit After Tax	1,796.0	1,972.3	1,440.2	3,082.7	3,981.1	5,244.2	5,974.1	6,857.1	7,781.0
Non-current Asset	5,795.4	5,998.0	4,858.3	4,180.1	3,826.8	3,709.8	3,642.9	3,655.1	4,085.1
Total Asset	60,897.2	63,584.9	48,864.7	53,981.3	59,840.4	64,082.6	70,582.2	76,194.2	93,603.6
Net Asset	18,301.1	19,467.7	19,520.0	21,789.4	24,498.3	28,508.8	33,300.6	38,928.3	45,494.2
Profitability Ratios									
Gross Profit Margin	10.4%	9.6%	8.4%	8.8%	10.4%	10.7%	10.6%	10.6%	10.6%
EBITDA Margin	4.1%	3.4%	3.0%	4.0%	5.0%	5.5%	5.4%	5.3%	5.4%
OPEX Margin	7.2%	6.9%	6.2%	5.4%	6.0%	5.6%	5.4%	5.5%	5.4%
Operating Profit Margin	3.3%	2.8%	2.3%	3.5%	4.5%	5.2%	5.2%	5.1%	5.2%
PBT Margin	2.1%	2.0%	1.8%	3.0%	4.0%	4.7%	4.8%	4.7%	4.8%
Net Margin	1.5%	1.4%	1.2%	2.4%	2.9%	3.4%	3.5%	3.5%	3.5%
ROAE	9.8%	10.1%	7.4%	14.1%	16.3%	18.4%	17.9%	17.6%	17.1%
ROAA	2.9%	3.1%	2.9%	5.7%	6.7%	8.2%	8.5%	9.0%	8.3%
Liquidity Ratios									
Current Ratio (x)	1.3x	1.1x	1.3x	1.3x	1.4x	1.5x	1.6x	1.7x	1.6x
Quick Ratio (x)	1.1x	1.1x	1.3x	1.3x	1.4x	1.5x	1.6x	1.7x	1.6x
Cash ratio (x)	0.4x	0.2x	0.2x	0.2x	0.4x	0.4x	0.4x	0.4x	0.5x
Du-Pont Analysis									
ROE	9.8%	10.1%	7.4%	14.1%	16.3%	18.4%	17.9%	17.6%	17.1%
Net Margin	1.5%	1.4%	1.2%	2.4%	2.9%	3.4%	3.5%	3.5%	3.5%
Asset Turnover (x)	2.0x	2.2x	2.4x	2.3x	2.3x	2.4x	2.4x	2.6x	2.4x
Leverage (x)	3.3x	3.3x	2.5x	2.5x	2.4x	2.2x	2.1x	2.0x	2.1x

Appendix

TOTALENERGIES PLC

Total Energies	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)							FORECAST HORIZON		
Turnover	307,987.9	292,177.2	204,721.5	341,316.3	384,334.9	440,243.7	494,933.3	541,920.2	591,172.4
Gross profit	34,785.2	35,051.4	30,747.4	55,000.3	64,862.8	77,057.3	83,304.1	92,508.2	100,915.8
EBITDA	13,382.6	13,164.7	9,263.0	28,538.6	31,889.2	37,689.6	41,606.9	45,638.5	49,649.6
Operating Profit	9,811.8	9,821.7	3,538.2	25,774.2	29,094.2	34,708.5	38,316.5	42,059.2	45,711.4
Profit before Tax	12,098.5	2,751.0	2,909.0	24,835.6	28,576.5	34,512.0	38,416.3	42,488.6	46,458.1
Profit After Tax	7,960.9	2,279.0	2,063.4	16,862.1	20,537.1	25,326.1	27,282.9	30,184.4	33,369.8
Non-current Asset	33,881.6	43,013.6	44,539.9	46,720.0	49,591.8	52,413.8	55,173.2	58,344.1	61,897.8
Total Asset	132,520.8	135,030.9	143,612.9	208,729.0	230,535.9	275,501.0	319,473.3	362,539.9	411,764.1
Net Asset	30,730.9	28,319.8	28,151.0	41,481.0	57,887.6	79,960.3	103,565.7	130,016.9	159,832.0
Profitability Ratios									
Gross Profit Margin	11.3%	12.0%	15.0%	16.1%	16.9%	17.5%	16.8%	17.1%	17.1%
EBITDA Margin	4.3%	4.5%	4.5%	8.4%	8.3%	8.6%	8.4%	8.4%	8.4%
OPEX Margin	8.4%	6.1%	6.9%	9.8%	9.6%	9.8%	9.6%	9.6%	9.6%
Operating Profit Margin	3.2%	3.4%	1.7%	7.6%	7.6%	7.9%	7.7%	7.8%	7.7%
PBT Margin	3.9%	0.9%	1.4%	7.3%	7.4%	7.8%	7.8%	7.8%	7.9%
Net Margin	2.6%	0.8%	1.0%	4.9%	5.3%	5.8%	5.5%	5.6%	5.6%
ROAE	25.9%	8.0%	7.3%	40.5%	35.5%	31.7%	26.3%	23.2%	20.9%
ROAA	6.0%	1.7%	1.4%	8.1%	8.9%	9.2%	8.5%	8.3%	8.1%
Liquidity Ratios									
Current Ratio (x)	1.6x	1.5x	1.3x	1.1x	1.2x	1.3x	1.4x	1.4x	1.5x
Quick Ratio (x)	1.1x	0.9x	1.0x	0.9x	1.0x	1.0x	1.1x	1.2x	1.3x
Cash ratio (x)	0.1x	0.1x	0.4x	0.4x	0.4x	0.5x	0.6x	0.7x	0.7x
Du-Pont Analysis									
ROE	25.9%	8.0%	7.3%	40.5%	35.5%	31.7%	26.3%	23.2%	20.9%
Net Margin	2.6%	0.8%	1.0%	4.9%	5.3%	5.8%	5.5%	5.6%	5.6%
Asset Turnover (x)	2.3x	2.2x	1.4x	1.6x	1.7x	1.6x	1.5x	1.5x	1.4x
Leverage (x)	4.3x	4.8x	5.1x	5.0x	4.0x	3.4x	3.1x	2.8x	2.6x

SEPLAT ENERGY PLC

Seplat Energy Plc	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics ($'000)							FORECAST HORIZON		
Turnover	746,140	697,777	530,467	733,188	898,618	966,630	1,036,524	1,101,573	1,201,697
Gross profit	391,214	395,738	124,575	285,189	444,610	465,790	500,424	541,285	655,334
EBITDA	314,415	330,922	57,387	214,769	376,623	392,620	410,589	460,034	573,405
Operating Profit	309,901	311,975	-31,716	250,688	323,016	332,507	368,163	406,436	517,523
Profit before Tax	263,314	292,967	-80,209	177,345	257,349	267,679	291,474	320,697	429,364
Profit After Tax	146,526	263,842	-85,322	117,176	170,036	176,862	192,584	211,892	283,691
Non-current Asset	1,610,950	2,274,778	2,790,059	3,149,111	3,193,737	3,241,944	3,300,990	3,384,562	3,355,803
Total Asset	2,497,298	3,271,110	3,449,573	3,892,734	4,384,943	4,523,379	4,749,918	5,041,820	5,407,619
Net Asset	1,600,885	1,803,939	1,664,045	1,707,486	1,841,566	1,949,956	2,075,414	2,219,689	2,443,587
profitability Ratios									
Gross Profit Margin	52.4%	56.7%	23.5%	38.9%	49.5%	48.2%	48.3%	49.1%	54.5%
EBITDA Margin	42.1%	47.4%	10.8%	29.3%	41.9%	40.6%	39.6%	41.8%	47.7%
OPEX Margin	26.7%	23.2%	38.4%	30.2%	22.9%	20.9%	22.5%	20.6%	19.5%
Operating Profit Margin	41.5%	44.7%	-6.0%	34.2%	35.9%	34.4%	35.5%	36.9%	43.1%
PBT Margin	35.3%	42.0%	-15.1%	24.2%	28.6%	27.7%	28.1%	29.1%	35.7%
Net Margin	19.6%	37.8%	-16.1%	16.0%	18.9%	18.3%	18.6%	19.2%	23.6%
ROAE	9.2%	14.6%	-5.1%	6.9%	9.2%	9.1%	9.3%	9.5%	11.6%
ROAA	5.9%	8.1%	-2.5%	3.0%	3.9%	3.9%	4.1%	4.2%	5.2%
Liquidity Ratios									
Current Ratio (x)	2.0x	1.5x	1.2x	1.3x	1.6x	1.7x	1.9x	2.0x	2.3x
Quick Ratio (x)	1.7x	1.4x	1.1x	1.1x	1.5x	1.6x	1.7x	1.8x	2.2x
Cash ratio (x)	1.3x	0.5x	0.4x	0.6x	0.7x	0.9x	1.0x	1.1x	1.4x
Du-Pont Analysis									
ROE	9.2%	14.6%	-5.1%	6.9%	9.2%	9.1%	9.3%	9.5%	11.6%
Net Margin	19.6%	37.8%	-16.1%	16.0%	18.9%	18.3%	18.6%	19.2%	23.6%
Asset Turnover (x)	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Leverage (x)	1.6x	1.8x	2.1x	2.3x	2.4x	2.3x	2.3x	2.3x	2.2x

About Afrinvest

Afrinvest (West Africa) Limited (Afrinvest or the Company) is a financial services holding company with a focus on West Africa and active in five principal areas: investment banking, securities trading, asset management, fund trust, and investment research & consulting. The Company was originally founded in 1995 as Securities and Trust Company Limited ("SecTrust") which grew to become a respected research, brokerage and asset management firm. Afrinvest has built a track record in executing transactions within its principal areas of business and prides itself in thorough knowledge of the Nigerian market, business communities and the regulatory environment; careful, fact-based analysis and recommendations; complete corporate independence and discretion; and the delivery of innovative solutions tailored to the specific needs of our clients. Afrinvest owns four operating subsidiaries.

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Fair Value Estimate

Our approach to establishing fair value takes into account a weighted average of price estimates derived from a blend of valuation methodologies including the Net Asset Valuation ("NAV"), Discounted Cash Flow ("DCF") and its variants as well as other relative/comparable trading multiples valuation models. However, we attach the most weight to EV/EBITDA valuation methodology, P/E Valuation Model, Free Cash Flow (FCF) model and Residual Income Valuation/Model ("RIV/RIM"). The utilization of comparable trading multiples is guided by the analysts' understanding of the company's fundamentals, as well as key price drivers from the firm, industry and macroeconomic perspectives.

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Seplat Energy Plc	SEPLAT	-
Ardova Plc	ARDOVA	-
Conoil Plc	CONOIL	-
TotalEnergies Plc	TOTAL	-

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a.	One of the analysts on the coverage team (or an immediate relative) has personal material interest in the security or issuer (at least 1% of outstanding shares)
b.	One of the analysts on the coverage team (or an immediate relative) is a board member or officer of the issuer
c.	Afrinvest has a significant interest in the security or issuer
d.	Afrinvest has received compensation for investment banking or financial advisory services from the issuer within the last 12 months
e.	Afrinvest Investment Banking was a major or co-lead in the primary listing of the company's shares
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k.	The issuer owns a stake in Afrinvest

Investment Ratings

BUY: The expected total return over the next 12 months is 25.0% or more. Investors are advised to take positions at the prevailing market price as at the report date.

ACCUMULATE: The expected total return over the next 12 months ranges between 10.0% and 25.0% or the upside potential is above industry average. However, cautious portfolio positioning is advised.

HOLD: Over the next 12 months, investors are advised to remain neutral as the expected total returns may not exceed 10.0% based on the prevailing market price as at the report date.

REDUCE: The expected total return of the stock ranges from nil to negative. Aggressive exit or entry may not be appropriate as the stock might fluctuate into a 10.0% decline over a 12-month horizon. Thus, the slim upside potential does not adequately compensate for the inherent risk.

SELL: The stock trades at a premium to its intrinsic value and is thus expected to lose up to 10.0% or more of its market value. Immediate exit is therefore advised at the prevailing market price as at the report date.

Target Prices: Target prices disclosed in this report are partly based on analysts' estimate of the company earnings. However, prices of securities could fluctuate if earnings miss estimate or due to general market, industry or macroeconomic risk factors.

For more details on company specific valuation methodologies, upside/downside risks to current valuation, contact the primary analyst or email research@afrinvest.com

Ratings Summary

	BUY	ACCUMULATE	HOLD	REDUCE	SELL	Total
Universe	1	1	0	0	0	**2**
% distribution	**50.0%**	**50.0%**	**0.0%**	**0.0%**	**0.0%**	**100.0%**

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